

**Balfour Beatty**

# DELIVERING LONG-TERM GROWTH

Annual report and accounts 2009



# Balfour Beatty

The creation and care of essential assets

Our business

## 01 Operating across the infrastructure lifecycle

## 04 What we do

A quick look at the business, geographies and markets

## 06 How we have performed

## 08 Message from the Chairman

Success means attracting, retaining and developing the best people

## 10 Strategic review from the Chief Executive

A clear strategy to drive long-term growth



## 21 Simplifying the delivery of complex projects for our customers

A look at some of the projects we are working on

## 34 Broadly-spread growth markets

Our principal markets promise long-term growth

## 37 Operating review of our four linked businesses

38 Professional services

42 Construction services

48 Support services

52 Infrastructure investments



## 56 Making our success sustainable

## 62 Board of Directors

## 64 Financial review

## 67 Directors' valuation of PPP concessions

## 70 Principal risks and risk management

## 74 Directors' report

## 82 Remuneration report

## 91 Independent auditors' report

## 92 Financial statements

## 160 Group five-year summary

## 161 Shareholder information



Our governance

Our accounts

Front cover: Balfour Beatty completed the construction of the iconic Infinity Bridge across the river Tees in Stockton, North-East England, in 2009

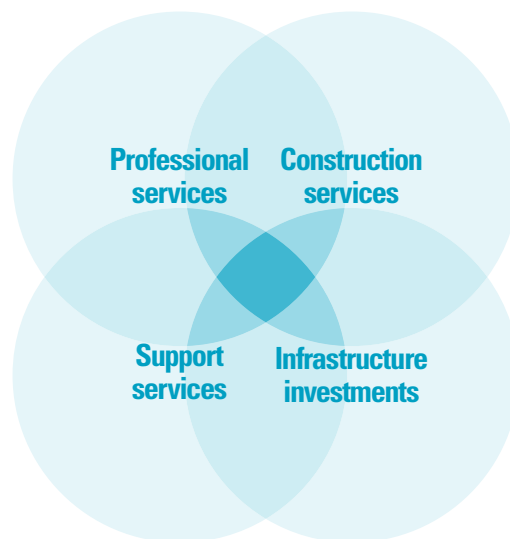
# Operating across the infrastructure LIFECYCLE

Infrastructure is a long-term business offering outstanding opportunities.

We have created a high-quality business operating **throughout the infrastructure lifecycle**, with strong positions in major markets.

Our four market-leading businesses – in Professional services, Construction services, Support services and Infrastructure investments – are mutually reinforcing.

And we are well diversified across markets and geographies. This gives us the resilience and agility to prosper throughout the economic cycle.



**Our model** Together our four businesses provide a full range of infrastructure services. Where they meet, we are at our most competitive and capable.

## Our business

The majority of our work is for customers who are financially stable, long-term investors in infrastructure. There is long-term demand for infrastructure – driven by demographic change, growing prosperity and expectations, and the need to replace ageing assets. As infrastructure assets grow in scale and complexity, their owners want to work with more fully integrated partners who can deliver more complete solutions.

We have built a portfolio of high-quality, market-leading businesses operating in Professional services, Construction services, Support services and Infrastructure investments. Together, they are the four components of a full-service infrastructure business: they can be brought together in any combination to provide an integrated capability. Where all four components meet, we are at our most competitive and capable, meeting the needs of major customers in the public, regulated and private sectors.

The acquisition of Parsons Brinckerhoff has brought the scale and reach of our Professional services business into proportion with the other three businesses, and gives us the capacity to develop the Group's depth of expertise and breadth of geographies and services across the infrastructure market.

## Where we are heading

Our goal is to become a world-leading provider of services to infrastructure owners.

We have first-class capabilities and experience in many fields, and can bring them together to deliver the largest and most complex projects.

Track record and proven expertise are hard for competitors to imitate. They enable us to attract the best people, win the most interesting and challenging projects from the best customers, and develop the best relationships with our supply chains.

## Our markets are changing

The opportunities in our markets are substantial. The underlying demand, and necessity, for social and civil infrastructure provides us with a secure and attractive market environment. There will continue to be exciting opportunities in many of our markets and inevitably, there are also going to be challenges in others.

The aftermath of the global financial crisis is changing our world. Over half our work is for governments, mostly in the UK and US, and so far we have benefited from the length of our order book and governments' need to maintain economic stimuli. However, while they recognise the need to maintain long-term investment in infrastructure, in the short term there will be cut backs while large fiscal deficits are paid down.

Around half of the rest of our work is for utilities and other regulated businesses. These tend to invest through the economic cycle and we expect their spending to remain stable, with the potential for future growth.

We are diversified through our market and geographic positions, and have the right skills and capabilities to take advantage of the demand for infrastructure.

## Maintaining our growth in this new world

To realise our potential we must:

- Share knowledge and integrate our capabilities even more effectively. We have made progress over the past few years, but still have some way to go and must integrate Parsons Brinckerhoff into the process.
- Ensure we are as competitive as we can be by evolving our structures and processes to leverage our scale and maximise efficiency.
- Continue to act like a leader, setting the standard in areas such as ethics, safety, sustainability and in our relationships with our customers, our supply chain and our people. Leadership is not only about having the biggest market share; we must behave like an organisation of real substance and stature.

To maintain growth in these market conditions, we need to focus our strategic development where most investment is going to be made. We cannot forecast with certainty where this will be, but have taken positive steps to meet future trends and expect our focus to include growing our business in the US, expanding our capabilities in particular sectors such as water and power generation, including nuclear, and building our position in industrial and commercial building markets.

Importantly, we now have a platform with the capability and strength to adapt rapidly to market conditions. This flexibility is itself a further competitive advantage, and will enable us to participate in the most promising opportunities as they emerge.



# What we do

We work on major infrastructure assets across their entire lifecycle: from conception, funding, programme management and design to construction, systems integration, operation and maintenance.

## Professional services



We are now a major global player in professional services.

We provide programme and project management, architectural services, project design, technical services and planning to the infrastructure market.

**See page 38 for more**

## Construction services



We provide building, design, construction management, refurbishment and fit-out services.

We undertake mechanical and electrical services, civil engineering, ground engineering and rail engineering services.

**See page 42 for more**

We work successfully as a group on major projects **see page 21**.

Individual businesses work autonomously and successfully in their own markets **see page 37**.

## Key geographies

### UK

£6,041m

58% of 2009 revenue

### US

£2,869m

28% of 2009 revenue

### Continental Europe

£499m

5% of 2009 revenue

### Asia Pacific

£592m

6% of 2009 revenue

### Middle East, Near East

£304m

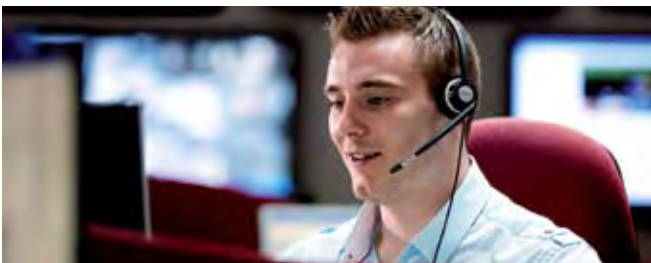
3% of 2009 revenue

### Central & South America

£34m

Revenue by destination, including joint ventures and associates.  
Only includes two months' revenue from Parsons Brinckerhoff.

## Support services



We provide total facilities management and business services outsourcing.

We upgrade and maintain water and power (gas and electricity) networks.

We manage, operate and maintain highways, including street lighting upgrades, and carry out UK rail renewals.

**See page 48 for more**

## Infrastructure investments



We operate a portfolio of long-term PPP concessions in the UK, primarily in the education, health and roads/street lighting sectors.

We operate a portfolio of long-term military accommodation PPP concessions in the US.

We operate an education PPP concession in Singapore.

We have interests in non-PPP assets at Blackpool and Exeter International Airports and Barking Power Station.

**See page 52 for more**

## Key markets

### Transportation

31% of 2009 revenue

### Road

13% of 2009 revenue

### Rail

16% of 2009 revenue

### Aviation

2% of 2009 revenue

### Defence

5% of 2009 revenue

**Other markets 9%**

### Utilities

11% of 2009 revenue

### Power

6% of 2009 revenue

### Water

5% of 2009 revenue

### Facilities management

5% of 2009 revenue

### Social

28% of 2009 revenue

### Education

14% of 2009 revenue

### Healthcare

10% of 2009 revenue

### Social and military housing

4% of 2009 revenue

### Commercial building

11% of 2009 revenue

# How we have performed

The scale and scope of Balfour Beatty's operations have been transformed in recent years.

Our revenues and order book have risen and we have become more internationally diverse.

## Financial results

Revenue including joint ventures and associates was up 9% at £10,339m (2008: £9,486m) or up 3% at constant currency\*.

This included the benefit of acquisitions, without which there was an underlying decline of approximately 4%.

Profit from operations<sup>1</sup> increased by 23% to £282m (2008: £230m) or by 14% at constant currency\*. Excluding the impact of acquisitions and at constant currency\*, profit from operations<sup>1</sup> increased by 10%.

Pre-tax profit<sup>1</sup> was up 7% at £267m (2008: £249m).

Adjusted earnings per ordinary share<sup>1,2</sup> were unchanged at 34.7p (2008: 34.7p), due principally to the impact of the rights issue in October 2009. Basic earnings per ordinary share were 37.4p (2008: 37.4p).

The Board has recommended a final dividend of 7.2p in respect of 2009, giving a full-year dividend<sup>2</sup> of 12.0p per share, up 8% on last year (2008: 11.1p).

Cash flow performance in the year was again strong with cash generated from operations of £294m (2008: £297m). The acquisition of Parsons Brinckerhoff (PB) was substantially funded through a rights issue, which raised a net £352m.

Average net cash in the year was strong at £283m (2008: £239m). Year-end net cash stood at £572m (2008: £440m), before taking account of the consolidation of £248m of non-recourse net debt held in PPP subsidiaries (2008: £143m).

As described at the time of the acquisition of PB, there will be cash outflows in the first year due to a number of factors, including additional tax charges, the unwinding of certain working capital positions and project settlement costs and the exceptional transaction and integration costs.

The year-end order book stood at £14.1bn, an increase of 10% on December 2008 (£12.8bn), or up 15% at constant currency\*. This included £1.4bn from acquisitions, so the underlying increase was 3%.

## Outlook

Our business has continued to perform well, and finished the year with a strong order book.

We have created a high-quality business operating across the infrastructure lifecycle, which is uniquely placed in major markets to benefit from the long-term growth in investment in infrastructure.

The breadth of our portfolio, enhanced by the acquisition of PB, means our business is resilient. In spite of economic uncertainty, we remain confident about the prospects for the Group.

## Financial summary

	2009	2008	Increase
<b>Revenue including joint ventures and associates</b>	<b>£10,339m</b>	£9,486m	+9%
<b>Group revenue</b>	<b>£8,954m</b>	£8,261m	+8%
<b>Profit from operations</b>			
– before exceptional items and amortisation	<b>£282m</b>	£230m	+23%
– after exceptional items and amortisation	<b>£297m</b>	£251m	+18%
<b>Pre-tax profit</b>			
– before exceptional items and amortisation	<b>£267m</b>	£249m	+7%
– after exceptional items and amortisation	<b>£267m</b>	£270m	(1)%
<b>Earnings per share<sup>2</sup></b>			
– adjusted <sup>1</sup>	<b>34.7p</b>	34.7p	–
– basic	<b>37.4p</b>	37.4p	–
<b>Dividends per share<sup>2</sup></b>	<b>12.0p</b>	11.1p	+8%
<b>Financing</b>			
– net cash before PPP subsidiaries (non-recourse)	<b>£572m</b>	£440m	
– net borrowings of PPP subsidiaries (non-recourse)	<b>£(248)m</b>	£(143)m	

<sup>1</sup> before exceptional items and amortisation of intangible assets.

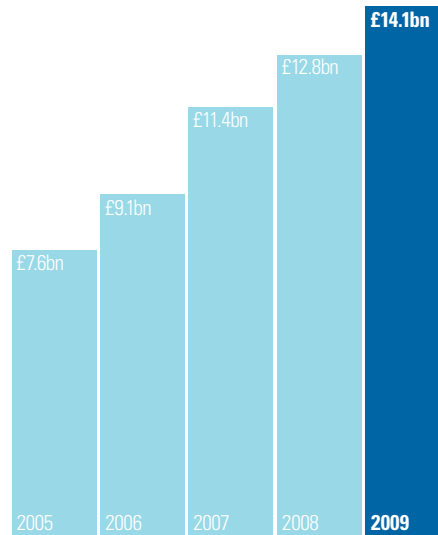
<sup>2</sup> per share data has been restated for the bonus element of the 2009 rights issue.

\* Movements at constant currency are derived by restating the 2008 figures at the exchange rates applied for the comparable 2009 figures.

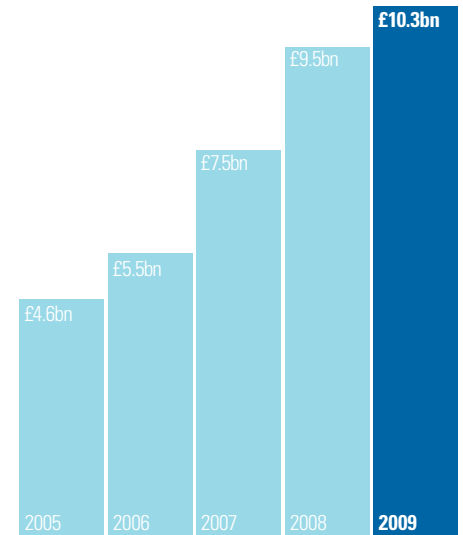


**Order book**

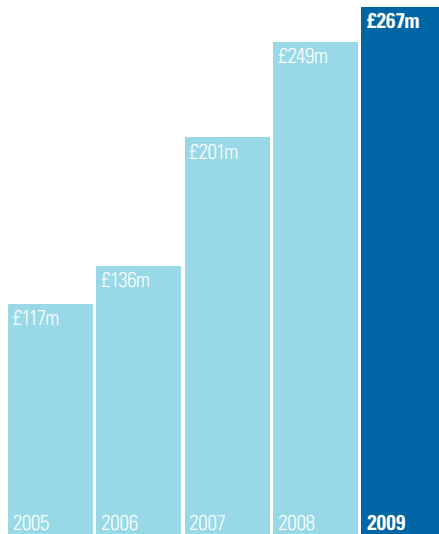
£14.1bn +10%

**Revenue including joint ventures and associates**

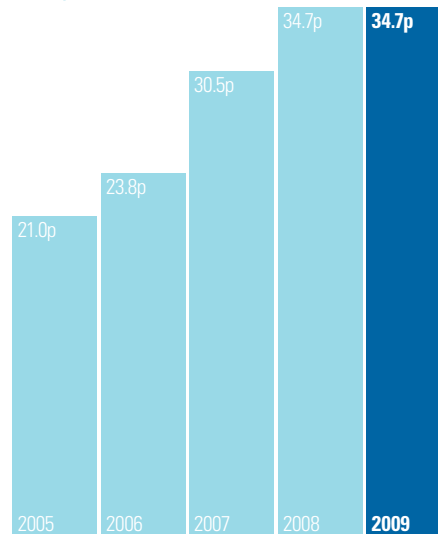
£10.3bn +9%

**Pre-tax profit<sup>1</sup>**

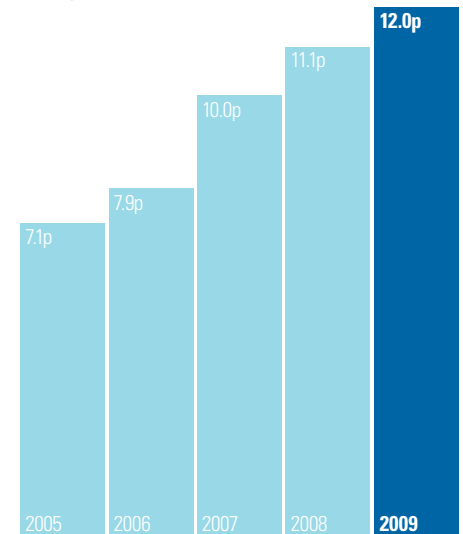
£267m +7%

**Adjusted eps<sup>1,2</sup>**

34.7p

**Dividend growth<sup>2</sup>**

12.0p +8%



## Message from the Chairman

# Thanks to our high-calibre people

“Planning and then implementing the right strategic direction for the business can only be successful if we attract, retain and actively develop the best people in our industry.”



Steve Marshall  
Chairman



I am pleased to report that Balfour Beatty had another good year in 2009.

The acquisition of Parsons Brinckerhoff (PB) realised a number of the Group's long-term strategic objectives.

PB is a high-quality business specialising in the programme and project management of large, complex infrastructure developments. We now have a leading presence in the professional services market, which has been one of our key strategic goals for some time.

Professional services plays an increasingly important role at the outset of major infrastructure projects around the world. PB strengthens our ability to serve infrastructure markets and enhances the Group's long-term growth potential.

We have now created an integrated portfolio of substantial businesses operating in four related market sectors: Professional services, Construction services, Support services and Infrastructure investments with significant capabilities in each part of the lifecycle of infrastructure assets. Increasingly, major infrastructure owners are looking to their core industry partners to integrate these capabilities so as to reduce cost and eliminate risk.

Through this combination of businesses, and the diversity of our geographic and end-user markets, we have created a model for long-term success, which has the balance and resilience to counter the economic uncertainties that remain in some of our markets, and the Group is well-positioned to take advantage of growth as it occurs.

The scale and scope of Balfour Beatty's operations have been transformed in recent years. Our revenues are now in excess of £10bn and we operate in more than 100 countries around the world. In becoming a much more international business, we have reduced our relative exposure to UK markets, which, looking forward, account for around 54% of Group revenues. And in the US, we now have a significant presence with sales in excess of US\$5bn and around 10,000 employees.

Operationally, we benefited in 2009 from continued expenditure in infrastructure markets. Our strong focus on effective and efficient delivery for customers helped us to achieve a pre-tax profit of £267m (before exceptional items and amortisation), a 7% increase on the previous year.

#### Dividend

The Board is proposing a final dividend of 7.2p per ordinary share, making a total dividend of 12.0p for the year, an increase of 8%.

#### The Board

Given the broadened scope of the Group, it is imperative that we continue to review the make-up of the Board. Andrew McNaughton was appointed Chief Operating Officer and joined the Board on 1 January 2009.

Graham Roberts joined the Board as a non-executive Director on 1 January 2009 and became chairman of the Audit Committee on 5 March 2009. Graham is finance director of The British Land Company PLC and has brought valuable financial and commercial experience.

Iain Ferguson was appointed as a non-executive Director on 1 January 2010. His extensive international operational experience and his strategic insight, latterly in his capacity as chief executive of Tate & Lyle PLC, will make a significant contribution in the coming years.

In August 2009, we announced that Stephen Howard was standing down as a non-executive Director from the Board. I would like to thank Steve for his contribution to the Company's success over the three years of his tenure and wish him well.

Recognising the increased scale and scope of Balfour Beatty's operations in the US, it is intended to seek a non-executive Director, with an appropriate level of US operating experience, during 2010.

#### People

Of course, planning and then implementing the right strategic direction for the business can only be successful if we attract, retain and actively develop the best people in our industry.

Over 50,000 people are now directly employed by the Group and one of the things that really sets us apart is the scope of opportunities that we can offer.

Balfour Beatty is an exciting place to be and we are working hard to harness the energy and expertise in the Group.

Providing challenging projects to work on, putting in place a series of programmes to get the best out of our people and encouraging a strong sense of Group-wide co-operation and shared values takes time and effort, but ultimately becomes a virtuous circle.

At the recent Senior Management Conference in London, it was instructive to note that over 50% of our top 250 managers had been with the Group for more than 10 years. Many others became part of Balfour Beatty as a result of acquisitions made in recent years.

#### Doing the right thing

While we focus on driving the business forward in difficult markets, we also need to maintain a clear view of our culture, our values and the elements that make up our licence to operate.

We are making progress in many areas.

Our Group-wide safety campaign, Zero Harm, has had real success in raising awareness of the standards we aspire to. We have set the bar at a very high level but continued progress towards our goal is required if we are to thrive in a global market in which sophisticated customers now rightly view safety as a decisive competitive differentiator.

There have been other serious reputational issues we have had to contend with. While the Office of Fair Trading's industry-wide investigation into tender activities in the UK construction market related to the practices of a number of years ago, there are important lessons to learn.

As a market leader, not only do we have to take the lead in eradicating any possibility of a repeat performance, we have to be right at the forefront of responsible behaviour and processes and enlightened stakeholder management.

We have produced a new Code of Conduct for all our employees and are working hard to uphold a common culture based on the shared values of integrity, teamwork, excellence and respect.

#### The future

Balfour Beatty has created a high-quality business operating across the infrastructure lifecycle, which is uniquely placed in major markets to benefit from the long-term growth in investment in infrastructure.

I am confident that our business model and the calibre of our people will combine to deliver genuine resilience, not least as publicly-funded infrastructure investment inevitably comes under medium-term pressure in some markets.

The trend for infrastructure owners increasingly to rely on the capabilities of their trusted partners plays to our strengths.

I strongly believe we have the capability to become a global leader in infrastructure services.

## Strategic review from the Chief Executive

# Realising our POTENTIAL

Our goal is to become a world-leading provider of services to infrastructure owners.

Around half our revenue now comes from outside the UK, and we are well diversified across geographies and market sectors.

We have four strong and mutually-reinforcing businesses. Each is a match for any competitor in its field. Together they can offer infrastructure owners a uniquely integrated service.

The question now is: how do we grow this model to achieve our strategic goal?



Ian Tyler  
Chief Executive



## A clear strategy to drive long-term growth

Balfour Beatty has maintained revenue and profit growth throughout the financial crisis. We have demonstrated our resilience and can face the future with even greater capability, a strong balance sheet based on robust cash generation, and excellent long-term prospects. But the post-recession world will be a tough one. To succeed in it, we will have to:

- 1. Grow our four businesses individually** p12

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- 2. Capitalise on our unique integrated capability** p13

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- 3. Share knowledge and integrate our capabilities even better** p14

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- 4. Leverage our scale and maximise efficiency** p15

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- 5. Show leadership in our values and behaviour** p16

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- 6. Focus our strategic development where the money is going to be spent** p17

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In 2009, we took important steps forward in all these areas. In particular, we transformed our capabilities in professional services (p18), redefined our business in four new segments (p19) and reinforced our shared culture and values (p20).



## Strategic review from the Chief Executive

# 1. Grow our four businesses individually

In uncertain times, diversity is a strength. In Professional services, we are one of the world's leading companies. In Construction services, we have a market-leading business in the UK, a substantial business in the US and strong positions in Hong Kong and the Middle East, in addition to our international rail business. In Support services, we have leading positions in the utilities, facilities management, highways management and rail renewal markets. In Infrastructure investments, we are the leader in UK PPP and its equivalent, P3, in the United States.



A complete range of support services are provided for Royal Mail including specialist project management, printing, manufacturing and installation and maintenance of fire and security systems.

### Why is this important?

To address such a broad range of markets effectively, we have grouped our operating companies into four business segments with growth strategies tailored to their specific markets.

### What are we doing?

**Professional services** We are integrating Parsons Brinckerhoff (PB) into the Balfour Beatty Group and bringing our existing professional services capabilities under the overall management of PB. We will focus on expanding our activities in the UK and US, and the other international markets where PB has an established presence.

**Construction services** We work for customers who want the highest levels of quality, safety and technical expertise, which gives us a particular edge in competing for high-profile or innovative projects. We are aiming in particular for high-value road, rail, education and power opportunities and strengthening our position in the aviation, PPP and US Government markets.

**Support services** We work in partnership with customers to devise innovative solutions that will expand the scope of contracts and enhance contract renewal prospects. In particular we are targeting the growing demand for more complex, multi-service contracts – especially those including total facilities management and business services outsourcing, where our experience and resources gives us advantage.

**Infrastructure investments** In the UK, where we are a leader in PPP, we are pursuing opportunities that take advantage of our capabilities across the Group, applying our financing skills and strong balance sheet to competitive advantage. In the US we aim to leverage our experience in military housing, the most developed PPP market, to secure opportunities in social infrastructure. We also continue to seek investment opportunities where we can improve asset quality in markets we understand well.

### What's next?

#### In the year ahead we aim to:

Complete the integration of PB and capitalise on its strong market positions

Focus construction services on growing sectors in the infrastructure market

Broaden the range of services provided in support services and pursue growth opportunities in the outsourcing market

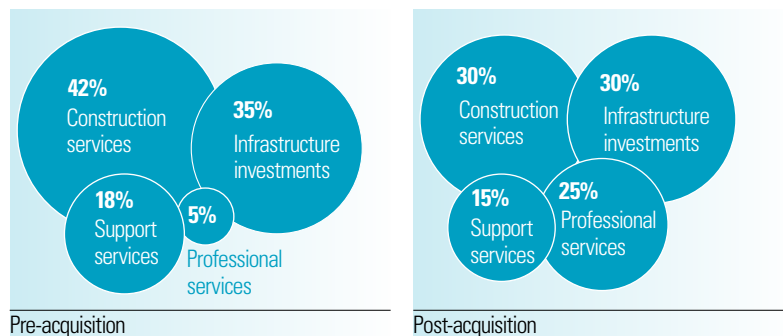
Pursue investment opportunities in UK and US PPP, extending our proven expertise into new sectors.

On the £6.2bn M25 contract we have integrated our financing, construction and long-term operations and maintenance capabilities. See page 26 for more details.



### Estimated value by sector

The PB acquisition means we have four strong market-leading businesses.



## 2. Capitalise on our unique integrated capability

We are differentiated by the breadth of our capability. Around one-third of our business by value is in construction: the rest spans a range of related activities from finance to long-term facilities management. Together, our four businesses form a unique full-service infrastructure business which we are marketing and managing in an increasingly integrated way.

### Why is this important?

Increasingly, infrastructure owners want to work with a trusted partner and reduce the number of suppliers they have to manage, in order to reduce both risk and cost. Our proven ability to integrate professional and support services, engineering, construction and investment skills is generating a range of large-scale opportunities. It is particularly relevant and attractive to the more sophisticated infrastructure owners with the largest, most complex and highest value projects. Our track record and expertise in this market are hard for competitors to match; they help us to attract the best people, the best customers, and the best relationships through the supply chain.

### What are we doing?

The acquisition of PB was a major step in achieving an integrated business model, as the diagram (*above right*) shows, it means we have four strong, market-leading businesses across the range of infrastructure-related services.

This enables us to increase our focus on seeking out and winning projects that are particularly large, complex or novel, where we can deploy a range of capabilities. We do not expect to involve all four businesses on every project, but we believe there will be increasing opportunities to deliver integrated solutions where two or more businesses intersect.

Our ability to deliver truly integrated solutions depends on having a common culture, values and knowledge sharing across the organisation. We have made progress, but are not there yet: this is a top strategic priority for us.

### What's next?

#### In the year ahead we aim to:

Seek more opportunities for delivering integrated solutions

Continue developing a common culture and values across all businesses.



Balfour Beatty now employs over 50,000 people in over 100 countries. The growth of the Group in recent years has been dramatic. As the scale and scope of our operations increases, we need to get better at knowledge sharing to meet our customers' requirements.

### 3. Share knowledge and integrate our capabilities even better

If collaboration is our future, we need to be world-class in sharing knowledge and integrating capabilities across the Group. We have been rising to that challenge over the past few years, but our continued expansion means that the work must go on continuously.

#### Why is this important?

Over the past 10 years we have grown rapidly in generally favourable conditions. We have reached a size where we have to be more unified in the way we work: not only because our customers want us to deliver more integrated services but also because this is the key to working more efficiently in the market conditions we now face.

#### What are we doing?

Individual businesses will remain accountable for their own financial performance, but we are introducing new processes and ways of thinking, to ensure that they also share meaningful accountability for the performance of the organisation as a whole.

We are stepping-up contact between operating companies, transferring knowledge, people and capabilities, and building networks so that experience transfers across the organisation. We are also pulling together specialists from different businesses to form sector-focused teams such as Balfour Beatty Education.

As we break down traditional silos, we are learning to become a "plug and play" organisation that can put together elements from different parts of the Group to build bid and project teams combining relevant sector knowledge, local insight and technical expertise.

Greater collaboration between operating companies is also the key to more efficiency – see opposite page – through smarter procurement and sharing of services.

#### What's next?

##### In the year ahead we aim to:

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Continue enhancing knowledge sharing and personnel exchange across all businesses

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Use more advanced internal IT solutions.

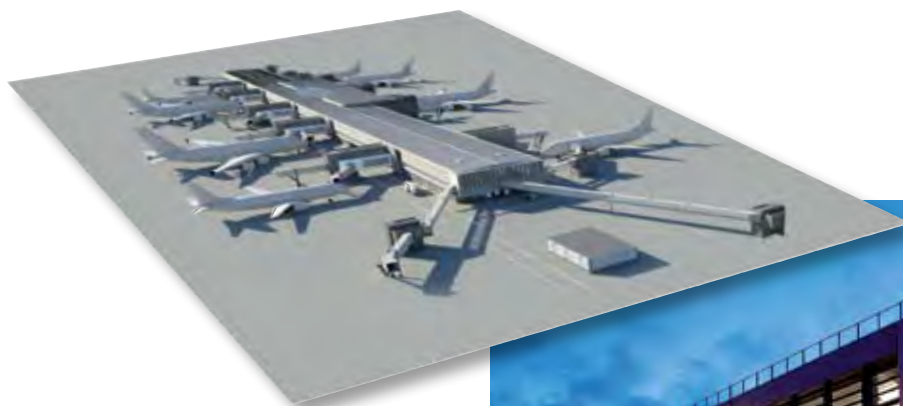
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## 4. Leverage our scale and maximise efficiency

Given economic conditions, the mantra of every infrastructure owner, whether government, regulated business or private sector, is going to be “more for less”. Pricing will be even more competitive. Productivity and efficiency will be the key issues in these conditions. We must compete as effectively as possible by leveraging the scale of the business.

The integrated team at Heathrow's Terminal 2 development is drawn from six operating companies, providing BAA with full Group capability and experience, including procurement opportunities from Gammon.



### Why is this important?

Organisations that can deliver the lowest cost of ownership to their infrastructure customers will be the winners. Cost-efficiency will be a key element of that and we need our supply chain to keep costs down while delivering consistently high-quality service, safely and on schedule.

### What are we doing?

As well as tactical action to reduce costs, we are considering strategic programmes to introduce smarter back-office processes and see where we can potentially share services. But the biggest and most quickly addressable benefits will come from a more strategic approach to procurement.

We now have huge scale that we do not yet fully leverage. Our structure to date has given individual operating companies responsibility for their own procurement, and the diversity of processes has made it difficult to analyse our overall spending. We know we have too many suppliers, and that too few have relationships with more than one operating company.

So we have begun standardising the terms on which we deal with our supply chain. We are bringing operating companies together to share best practice and consolidate suppliers to establish fewer, stronger relationships. The aim is to reduce total costs through a strategic, sustainable supply management culture in which we involve our supply chain in a process of continuous improvement. The potential rewards are substantial and will help margin performance.

### What's next?

#### In the year ahead we aim to:

Analyse spending in key areas

Introduce consistent purchasing processes across the Group

Consolidate suppliers

Look for opportunities to share services across operating companies.

## Strategic review from the Chief Executive

# 5. Show leadership in our values and behaviour

To be the leading provider of infrastructure services, we will need to act like a leader – setting the industry standard for ethics, safety, sustainability, and in relationships with customers, the supply chain and our people. Leadership is not just about having the biggest market share. Infrastructure is about long-term investment and we need to demonstrate that we have a long-term perspective.

Having a common set of values that represents the Group offers clear business benefits and will support the challenges of future growth.



### Why is this important?

In our business, success is built up over decades – but can be undone very quickly by inappropriate business behaviour. As our business becomes larger, more diverse and ever more complex, we need to reinforce a clear culture and values that enable everyone to manage complexity and make decisions that consistently protect both our finances and our reputation. Knowing what we all stand for will sustain us through the challenges of future growth as we enter new market sectors and integrate further companies. It will also help customers to see that the Balfour Beatty brand delivers consistent behaviour when we build teams from different parts of the Group.

At a time of rising global concern over corruption, we also recognise that companies which are seen to have the highest ethical standards have a clear competitive advantage.

### What are we doing?

We are working to ensure that all parts of the organisation recognise and uphold a common culture based on shared values. Following extensive consultation with customers, suppliers, joint venture partners and employees and building on existing best practice within the Group, we identified these values as crucial:

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**Integrity** enables customers to choose us because they trust us

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**Teamwork** enables us to work effectively with our supply chain and respond with agility to customers' needs

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**Excellence** is the most effective way to differentiate ourselves from competitors

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**Respect** ensures that our colleagues, our stakeholders and the world feel we treat them fairly.

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### What's next?

#### In the year ahead we aim to:

Continually educate individuals and businesses joining the organisation

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Provide a long-term programme of support and guidance

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Distribute and communicate our new Code of Conduct to everyone in the Group to ensure we challenge ourselves and one another to bring our values to life

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Recognise our responsibilities, as a market-leading business, towards communities and the environment, and make progress on our ambitious targets.

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Balfour Beatty is currently working at the Sellafield nuclear reprocessing facility and recently completed work at Whitelee, Europe's largest onshore wind farm.

## 6. Focus our strategic development where the money is going to be spent

The pattern of opportunity for us is changing. Over half our work is for governments around the world and while they all recognise that cutting infrastructure investment will harm future productivity, most may have little choice once current economic stimulus programmes have played out. But if government spending is scaled back, particularly in the UK, the breadth and diversity of our businesses gives us ample opportunity to replace it with work elsewhere.

### Why is this important?

Our strategy will always focus on infrastructure. But there are many infrastructure markets, all over the world. If investment is falling in some of our markets, we need to be focusing on those where more money is going to be spent.

In the long term, demand for more and better infrastructure will continue to grow worldwide. In mature economies this will be driven by the continuing need to drive productivity. Old infrastructure – like power transmission in the US and power generation in the UK – needs to be renewed before it constrains development of the wider economy. In emerging economies, infrastructure is a key driver to economic growth as well as an important tool in managing demographic change. In both emerging and mature economies, the drive for sustainability will mean more investment in infrastructure, not less.

### What are we doing?

We are confident that there will be ample investment that we can bid for. But in times of economic uncertainty, we cannot be entirely sure where it will arise. Our priorities for the years ahead are listed below, but we must be ready to adapt quickly to market conditions.

### What's next?

#### In the years ahead we aim to:

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Continue to develop our US business

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Leverage our presence in new markets, particularly Australia, Asia, the Middle East and South Africa

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Develop our capabilities in utility markets such as water and power, including nuclear, where investment is likely to be increased

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Take advantage of expected recovery in industrial and commercial building markets.

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## Strategic review from the Chief Executive

# Parsons Brinckerhoff gives us real weight in professional services and an enhanced presence in the US

**Scope and scale** PB is one of the world's leading professional services firms, with some 12,500 employees in a network of over 100 offices. Its services span the entire project lifecycle from management consultancy and planning to design and engineering, programme, project and construction management services, and operational, maintenance and support services once construction is complete. It has managed some of the world's largest and most complex infrastructure projects.

In October 2009 we acquired Parsons Brinckerhoff (PB) for US\$626m. Our ability to address the needs of key infrastructure customers worldwide has been enhanced, especially in light of the trend for major infrastructure owners to seek an integrated approach from their partners and suppliers.

### A leader in its field

PB is one of the world's leading professional services firms. Over 125 years it has become a global market leader in transportation, primarily in the US, UK, Australia, Asia, the Middle East and South Africa.

It is involved in some of the world's largest and most important infrastructure projects. In *Roads and Bridges* magazine's 2009 Go-To List survey, US Government officials ranked it top for roads and highways, bridges, airports and mass transit. It is rated fourth in global transportation by *Engineering News Record* and fourth among global power consultants by *New Civil Engineer*.

### What does it bring us?

The fit with our capabilities is excellent. Many of our key customers are looking for suppliers who can get involved earlier in the project lifecycle: integrated services can take pressure off their own engineering and procurement organisations, cut the risks of supply chain conflicts and avoid the inefficiencies of managing too many supplier interfaces.

PB will also enhance our ability to respond to evolving procurement methods such as design and build, alliances and PPP concessions. Now well established in the UK, these are increasingly prevalent in other countries, with local adaptations. We expect them to grow rapidly in the US, where the role of the professional services provider is critical to key customer relationships. In the international PPP market, few companies can match the combination of our investment expertise, professional services skills and downstream delivery capabilities.

We have strengthened our position in the global infrastructure market, particularly in transportation and power. These are important segments, as the infrastructure market is driven in mature economies by the need to replace ageing infrastructure and also by sustainability issues, particularly in renewable energy and rail networks.

### Enhancing access to key markets

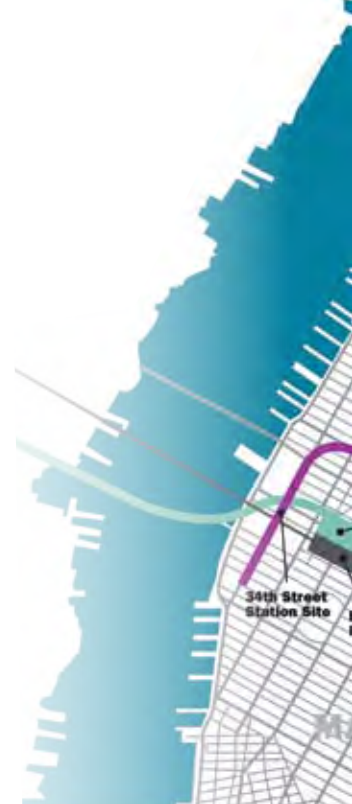
In the UK PB gives us scale in professional services, helping us to attract the brightest and best people to work on the most exciting projects. PB has one of the UK's leading power services businesses and substantially enhances our position in both generation and transmission, an increasingly critical issue for the UK.

The acquisition marks a further step change in the scale and depth of our US capabilities, particularly in civil infrastructure. We have made considerable progress in social infrastructure through earlier acquisitions of Balfour Beatty Construction and Balfour Beatty Communities and we are strong in education, health, defence, military housing and prisons. We want to achieve the same position in civil infrastructure, where professional services provides a key channel to markets such as roads, rail, aviation, ports, power and energy – and we can benefit from combining our international rail expertise, particularly in electrification, with PB's strength in the US transportation market. Our professional services expertise should also introduce us to new opportunities for our infrastructure investments business.

Elsewhere, PB helps us to diversify our customer base. In Australia we benefit from its strong presence in transportation, power, water and building. PB has a substantial network of offices across Asia and the Middle East, providing the benefit of local relationships and broadening the Group's capabilities in both social and civil infrastructure. This complements the Group's strong downstream positions in Hong Kong, Singapore and the Middle East through joint venture companies. PB also gives us access to key emerging markets such as India, South Korea, Thailand and South Africa, where the professional services market provides an ideal route into important future growth opportunities.

**"Balfour Beatty and Parsons Brinckerhoff share a commitment to professionalism, integrity and technical excellence."**

George Pierson, Chief Executive Officer,  
Parsons Brinckerhoff





## Our new reporting structure reflects the way we think about our business. We have four business segments

We now have four market-leading businesses and a presence across the entire lifecycle of major infrastructure assets. We are reporting the Group's business in four segments that correspond to the principal components of that lifecycle and reflect the way we think about and manage the Group: Professional services, Construction services, Support services and Infrastructure investments.

We are building a common framework of culture, values and processes so that our businesses can work together even more efficiently to provide integrated solutions for customers and deliver our vision of building world-class teams.

### Professional services

We are one of the world's major companies in professional services for infrastructure.

We believe being able to offer professional services as part of a comprehensive service to customers will continue to improve our competitive position.

The cultural fit with our existing professional services businesses is excellent and the process of integration is going well.

### Construction services

We are differentiated by the breadth and depth of our expertise, together with local knowledge of the markets in which we operate and our close relationships with supply chains.

We are established as a leader in the delivery of UK civil and social infrastructure. In recent years we have substantially enhanced our regional coverage in the UK through acquisitions.

Internationally, we have substantially developed the scale and capability of our US business through a series of acquisitions since 2007. Over time, we aim to have a US business of similar scale and depth to our UK business. In the attractive growth markets of South-East Asia and, in the longer term, in the Middle East we have a presence through strategic alliances with local partners – a 50% interest in Gammon, Hong Kong's leading engineering and construction group, and 49% interests in Dutco Balfour Beatty and BK Gulf, both in the UAE.



PB is providing a range of services for each of the four major transit projects in New York City that will make getting around the city faster and easier than ever.





Our Code of Conduct reinforces our values, sets out the behaviour we expect from employees and explains how to consider: "What's the right thing to do?".

## A common culture unites our businesses and our strategy

### Support services

Our Support services business provides ongoing operation and maintenance of assets, after they have been constructed, together with business services outsourcing. It comprises our utilities, facilities management, rail renewals and highways management activities.

This is a long-term business, where contracts range from five to 30 years, and is a significant potential area of growth for us. The key to success is the quality of customer relationships and the ability to provide continuous improvement for customers, to build partnerships that broaden the scope of contracts and extend them through renewals.

### Infrastructure investments

Our investments business is a leader in PPP markets, with 31 concessions in the UK, 18 in the US and one in Singapore.

We see major growth opportunities in the US. We are a leader in the military housing market, one of the most developed PPP markets in the US so far, and are well positioned to undertake privatisation projects in other sectors.

Our strategy includes applying the skills we have acquired in the UK and US PPP markets to the wider non-PPP market, particularly where there are attractive opportunities to take management control and improve asset quality. We are a direct investor in infrastructure assets, including a 25.5% stake in the combined cycle Barking Power Station in London, a 95% share of Blackpool International Airport and 60% of Exeter International Airport.

### Shared culture and values

The common thread running through most aspects of our strategy is the need for shared culture and values. This impacts particularly on our ability to integrate capabilities for customers, to share knowledge and capabilities, to leverage our scale and maximise efficiencies and to show leadership in our values and behaviour.

Our ability to operate in a joined-up way that is consistent across the organisation matters particularly for major customers who work with us on a multiplicity of contracts and projects and is essential if we are to deliver the benefits implicit in a long-term partnership relationship.

### In summary

We have created a unique capability to deliver across the infrastructure lifecycle.

We have four strong, market-leading businesses, which are mutually reinforcing and we are diversified, through our market and geographic positions, which give us real resilience and provides access to more opportunities.

I am very confident that we have the right skills and capabilities to take advantage of the necessary demand for infrastructure.

**Ian Tyler**  
Chief Executive

## Case studies

# Simplifying the DELIVERY of complex projects for our customers

Together, our four businesses enable us to work throughout the lifecycle of infrastructure assets – from raising and structuring funding, through programme management and design to construction, systems integration and lifetime operation and maintenance.

This matters to infrastructure owners who want to cut risk and cost by working with fewer, better integrated suppliers. By bringing together two or more businesses we can simplify the delivery of large and complex projects – as many of the following case studies show...



Professional services

Construction services

Support services

Infrastructure investments

**Blackfriars Station** The Thameslink line runs right through London from Bedford to Brighton. Linking two airports, two major London rail termini and nine London Underground stations, it's one of the UK's busiest rail routes. So busy that 50% of regular users say they sometimes can't board trains because of overcrowding. We're helping to keep them on track.

# Changing TRAINS

The solution to overcrowding on Thameslink trains is simple: run more frequent, longer trains. What's not so simple is accommodating those trains. Station platforms must be lengthened, bottlenecks must be cleared.

One of the worst bottlenecks is the 1886 Blackfriars railway bridge and its outdated station. To bring them into the 21st century we are widening and strengthening the bridge and building a new station across it, for Network Rail, with realigned tracks and new covered platforms spanning the River Thames. A new southern concourse will give passengers access from the south of the river for the first time.

It's a tricky job, made trickier by the need to keep the station open virtually throughout the programme to minimise disruption for passengers. We have done much of the work at night and over weekends and holidays, while causing as little disturbance to neighbours as possible (over Christmas 2009, the office stayed open 24/7 to respond to neighbours' concerns and received not one complaint).

The schedule is tight. We started in September 2008 and finish by 2012, so the new trains can be running in time for the Olympics. With at least 200 engineers in the project office and up to 500 workers on-site, it helps that we can bring together the key resources from within the organisation – from specialists in piling and bridgework to world-class rail experts.

This follows the success of our £115m project to build the new underground northern ticket hall at King's Cross St Pancras. London Mayor Boris Johnson described our work there as "the standard by which all new station developments should be judged."

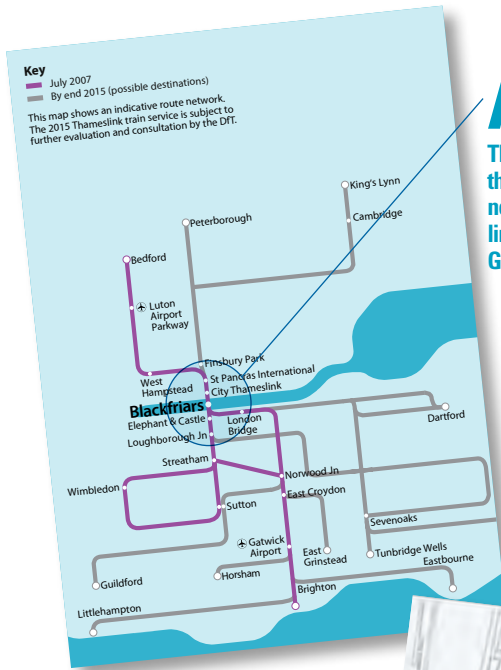
**"It's like changing the engines on an aircraft mid-flight! You'd rather not do it that way, but you've got to keep the passengers moving."**

Chris Evans, Project Director, Balfour Beatty *Left*

**"We completed the Christmas bridge slide on exactly the date we had planned a year earlier. That tells you how confident we are that we will finish the job on schedule."**

Peter Pannell, Construction Manager (North Station), Balfour Beatty *Right*





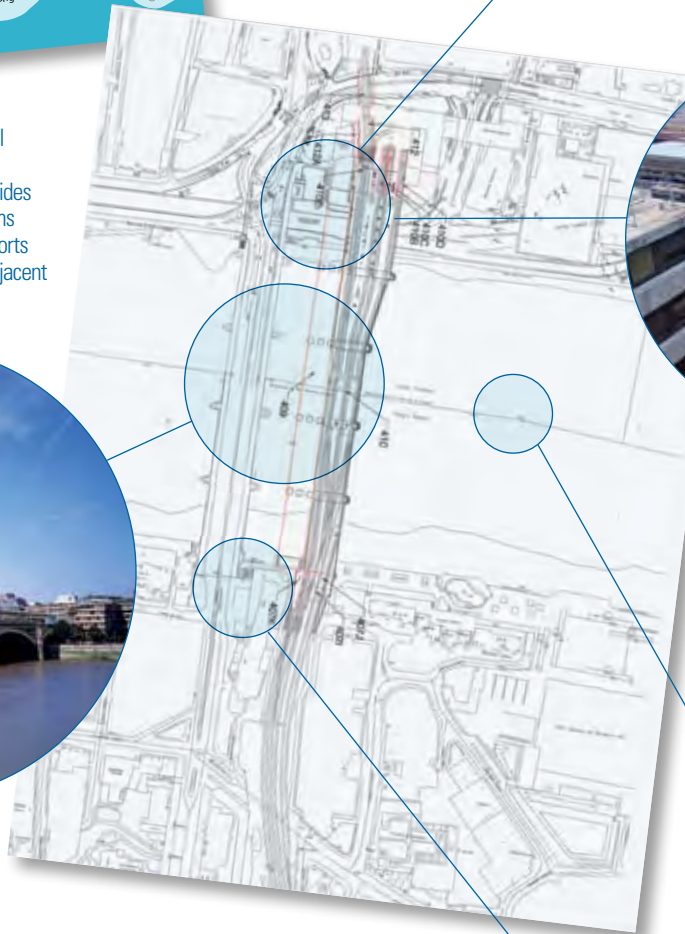
## A vital link...

Thameslink is a 50-station route through London from Bedford in the north to Brighton in the south. It also links the international airports at Gatwick and Luton.



On the north side of the river we are giving the station a purpose-designed entrance building to improve passenger access.

**Spanning the river** Blackfriars will be London's only cross-river station. With passenger access from both sides of the Thames, its widened platforms will rest on the existing bridge supports and will also utilise piers from an adjacent disused bridge.



**Spot-on slide** Over Christmas 2009 we replaced an old bridge section with a new concrete and steel bridge, built on-site, in a meticulously planned 149-hour operation. We slid the 600-tonne span 21 metres into place over more than seven hours. The timing was critical: if we'd missed that window, there would have been no opportunity to try again until Easter 2010 or the following Christmas.

**Avoiding congestion** To keep lorry traffic off London's crowded roads, the steelwork is being delivered by barge.

## ...through central London

In London, Thameslink connects the St Pancras International, and London Bridge rail termini. The upgrade programme will allow 12-car trains, adding 10,000 extra seats in peak periods.

On the south side of the river we're creating an entirely new station entrance and exit – serving London's South Bank arts complex and an expanding area of offices and studios.



Professional services

**Construction services**

Support services

Infrastructure investments

**Tamar Complex, Hong Kong** The development project will bring together the legislative and executive arms of Hong Kong's Government on a single site. We won the contract with an "open door" design that symbolises openness, emphasises sustainability and creates an exciting new public open space for a crowded island.

# Opening DOORS

Rainwater recycling for irrigation of open space

Shading devices

Designing a seat of government is a very special responsibility. The building will be iconic, becoming a visual symbol of the Government itself. Our winning design for Hong Kong's new government complex rose to that challenge with elegant simplicity – creating an 'open door' to Hong Kong on a landmark waterfront site next to Victoria Harbour.

The 27-storey Central Government Complex Office Block with two wings form the doorway, designed to symbolise the Government's openness and transparency, flanked by the smaller 11-storey Legislative Council Complex and the four-storey Central Government Complex lower block.

Hong Kong's leading building firm, Gammon Construction – 50% owned by Balfour Beatty – is undertaking the £320m project in joint venture with Hip Hing Construction. We won the contract for our ability to provide world-class design and construction as an integrated package, and for the high standards of sustainability, safety and sensitivity to local needs that we embodied in our approach.

Construction will take 39 months, for completion in 2011, and at the height of building work some 3,000 people will be employed on-site.

Natural light funnel

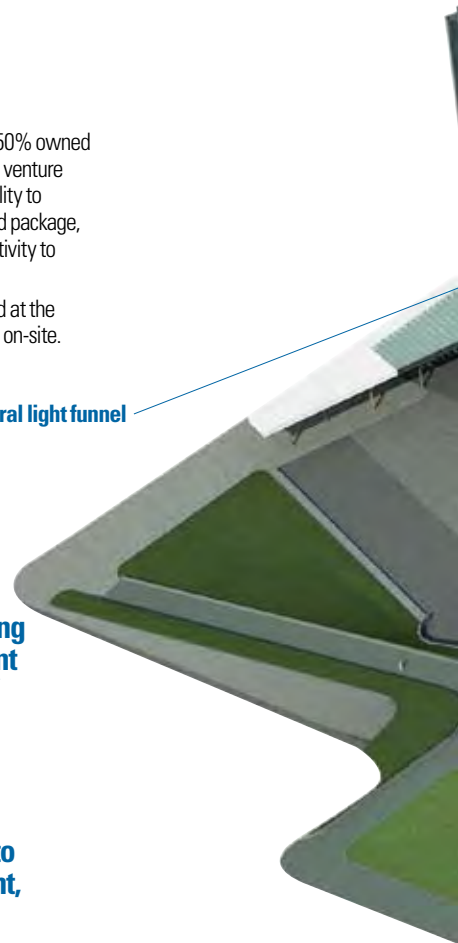


**"The Tamar development project will be an iconic place to mark Gammon's leading position and Balfour Beatty's involvement in the Hong Kong construction industry."**

Edward Yeung, Project Director, Gammon Construction *Left*

**"This project is a fantastic platform to advance sustainable construction. There are many environmental aspects to the programme, from waste management, partnering with the university on bio-remediation to materials sourcing."**

Shirlee Algire, Group Sustainability and CSR Manager, Gammon Construction *Right*





**Green door** The new complex will be one of the Hong Kong Government's greenest offices. Some of the key environmental features are indicated below.

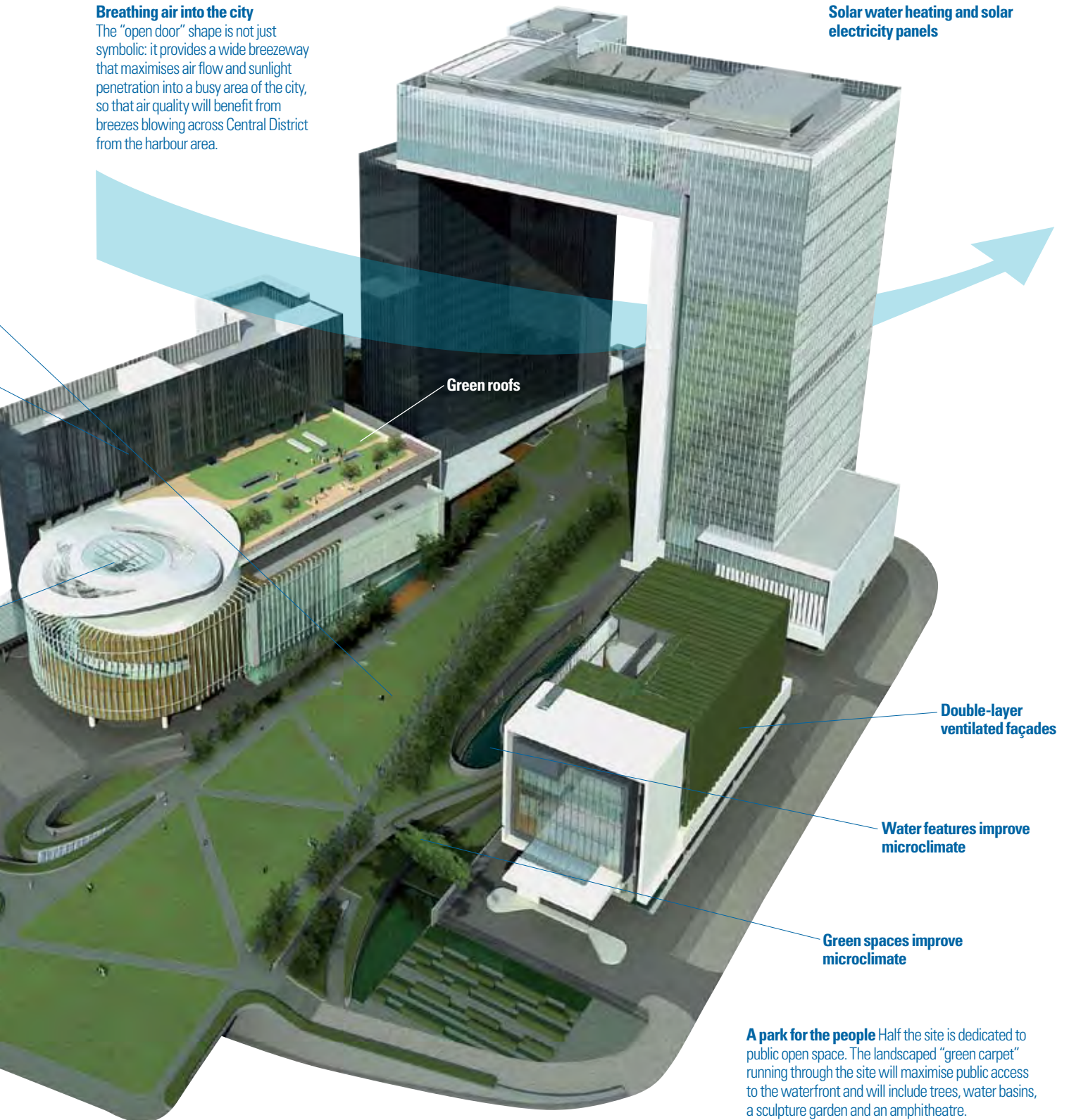
**Scenic door** The design carefully controls the building's bulk and height to avoid intruding into views of the city's mountain backdrop from the harbour and of the harbour from the Victoria Peak.

**Safer door** To build the towers we are using an innovative self-climbing external scaffolding system that reduces the use of tower cranes and provides a safer working platform compared with conventional scaffolding.

#### Breathing air into the city

The "open door" shape is not just symbolic: it provides a wide breezeway that maximises air flow and sunlight penetration into a busy area of the city, so that air quality will benefit from breezes blowing across Central District from the harbour area.

#### Solar water heating and solar electricity panels



Green roofs

Double-layer ventilated façades

Water features improve microclimate

Green spaces improve microclimate

**A park for the people** Half the site is dedicated to public open space. The landscaped "green carpet" running through the site will maximise public access to the waterfront and will include trees, water basins, a sculpture garden and an amphitheatre.

Professional  
servicesConstruction  
servicesSupport  
servicesInfrastructure  
investments

**M25** It's the world's longest city bypass and one of the busiest roads in Britain, keeping congestion out of the nation's capital. Pummelled by over 200,000 vehicles a day, it's increasingly overloaded and needs constant maintenance. Keeping it fit for purpose has involved not just highways engineering but some sophisticated financial investment.

# Mobilising CAPITAL

Funding major infrastructure programmes is a challenge for governments when public spending needs to be constrained. Partnership with the private sector offers a practical solution, mobilising large amounts of capital without increasing public sector borrowing.

As a leading member of the Connect Plus consortium, we've set a new benchmark for public-private partnership (PPP) with our £6.2bn contract to upgrade the M25 and maintain and operate it for 30 years.

The contract covers the 188km of the M25 and substantial stretches of the motorways that cross it – some 440km in total. Connect Plus is widening 67km of the M25 to four lanes each side, and refurbishing the two 1.1km tunnels on the A1(M) at Hatfield, in time for the London 2012 Olympic Games. Further upgrades are likely to follow. In the meantime, we have begun a maintenance and operation contract running to 2039, which extends from collecting tolls on the Dartford Crossing and clearing drains to renewing carriageways and replacing bridge bearings.

Our integrated capability enabled us to be the prime mover in making all this possible. We had the capital to invest £80m in creating Connect Plus and taking a 40% stake. We developed the unique and complex PPP model for the contract – which benefits both taxpayers and our shareholders by sharing risk and cost savings. And we convinced 16 commercial banks, plus the European Investment Bank, to provide funding in 2009's uncertain markets.

We are 50/50 partners with Skanska on the design and construction work and 52.5% partners with Atkins and Egis on the operation and maintenance contract. Our proven experience with these partners – and the Highways Agency – convinced the Government to agree this uniquely long-term commitment, which will help keep the capital moving.



**“Balfour Beatty has staked £80m on this contract, which we see as a model for enabling governments to address public financing needs and sustain economic growth.”**

Tim Jones, Chief Executive, Connect Plus *Left*

**“I worked for Balfour Beatty on the original road in the 1970s and 80s and the widening programme in the 90s. Until now, the Highways Agency has never had a maintenance contract longer than five years – but it seems only right that we should take care of this road for the next 30.”**

Mick McCarry, Construction Director, Skanska Balfour Beatty Joint Venture *Right*





**23 South Mimms Control Centre** Our main control centre for the operation and maintenance contract is at South Mimms, where we began work on the very first section of the M25 back in 1973, and our back-up facility is at Dartford.

16-23  
27-30

**Road widening** With Skanska we are widening two sections of the M25 from three lanes to four in each direction: the 41km section between the M40 and the A1(M) and the 26km stretch from the M11 to the A13.

**Watch your speed** A key part of the widening work is managing traffic flows to minimise disruption while ensuring safety for road users and our workers.



**A1(M) Hatfield Tunnel** We are refurbishing the 1.1km twin-bore Hatfield Tunnel located between Junctions 3 and 4 of the A1(M) – upgrading its mechanical and electrical systems and installing new monitoring equipment.

**Road worker safety** We have already completed over 2.5m hours of road reconstruction work without a single reportable accident.



**Pooling resources** Rather than feeding surface water into existing drainage systems, we are building balancing ponds that make good natural habitats.



Helping 200,000 vehicles a day around the UK's capital



**1a Dartford-Thurrock River Crossing** At Dartford our responsibilities include maintaining the bridge and tunnels and collecting tolls from more than 150,000 vehicles each day.

**Commitment to sustainability** is a key aspect of the contract. We have already imported 400,000 tonnes of recycled material including glasscrete, in which crushed glass substitutes for sand. And we are reusing over 87% of the waste materials produced on site – for example, by shaping and landscaping excavated material to make noise barriers (and natural habitats) alongside the road.

Professional  
servicesConstruction  
servicesSupport  
servicesInfrastructure  
investments

**New Energy Alliance** We form partnerships and alliances because we want to look beyond traditional client/contractor relationships. Isn't it better to form single teams working towards shared objectives? This approach has worked so well with National Grid in the UK that we have now taken it to the US – at National Grid's request.

# Sharing POWER

We're great believers in alliancing. In our experience, working as one team – sharing both the risks and the rewards for achieving efficiencies – keeps everyone focused on getting the job done rather than quibbling over the fine print in their contracts.

In the UK we've established several successful alliances with National Grid. One is renewing the gas mains network in Greater Manchester over eight years; another is carrying out some £500m of work to upgrade and develop the electricity transmission network in the eastern half of England.

We are convinced that such relationships are the way forward. And as National Grid extended its operations into North America, it was keen to establish similar structures there.

National Grid now serves 3.4m customers in the northeastern US, where it has a US\$1.7bn programme to renew power lines and substations dating back to the 1920s. Last year we set up New Energy Alliance (NEA), one of two external partnerships which bid successfully to work on this programme under a wider alliance framework for sharing best practice. NEA is a joint venture with MJ Electric, one of the largest US contractors in this field: what we bring to the relationship is our design and project management expertise – and our experience of alliancing, which is just beginning to gain traction in the US.

NEA's success is already attracting attention. We see it as a springboard for building our presence in the US, where the power transmission market alone offers big opportunities. In this and many other fields, our proven expertise in alliancing will give us a real competitive edge over the years ahead.

**“Alliancing is creating global opportunities for us because we're starting to demonstrate such great results and added value from this contractual model.”**

*Kevin George, Project Director, Balfour Beatty Right*

**“Historically, our work has been delivered by short-term labour as isolated projects. By assembling these into a much larger programme of work, we have achieved continuity of employment for our people, invested in their training, developed shared values and goals and established a Zero Harm safety culture.”**

*Dorothy Changelo, Transmission Lead, New Energy Alliance Left*



**Network coverage**

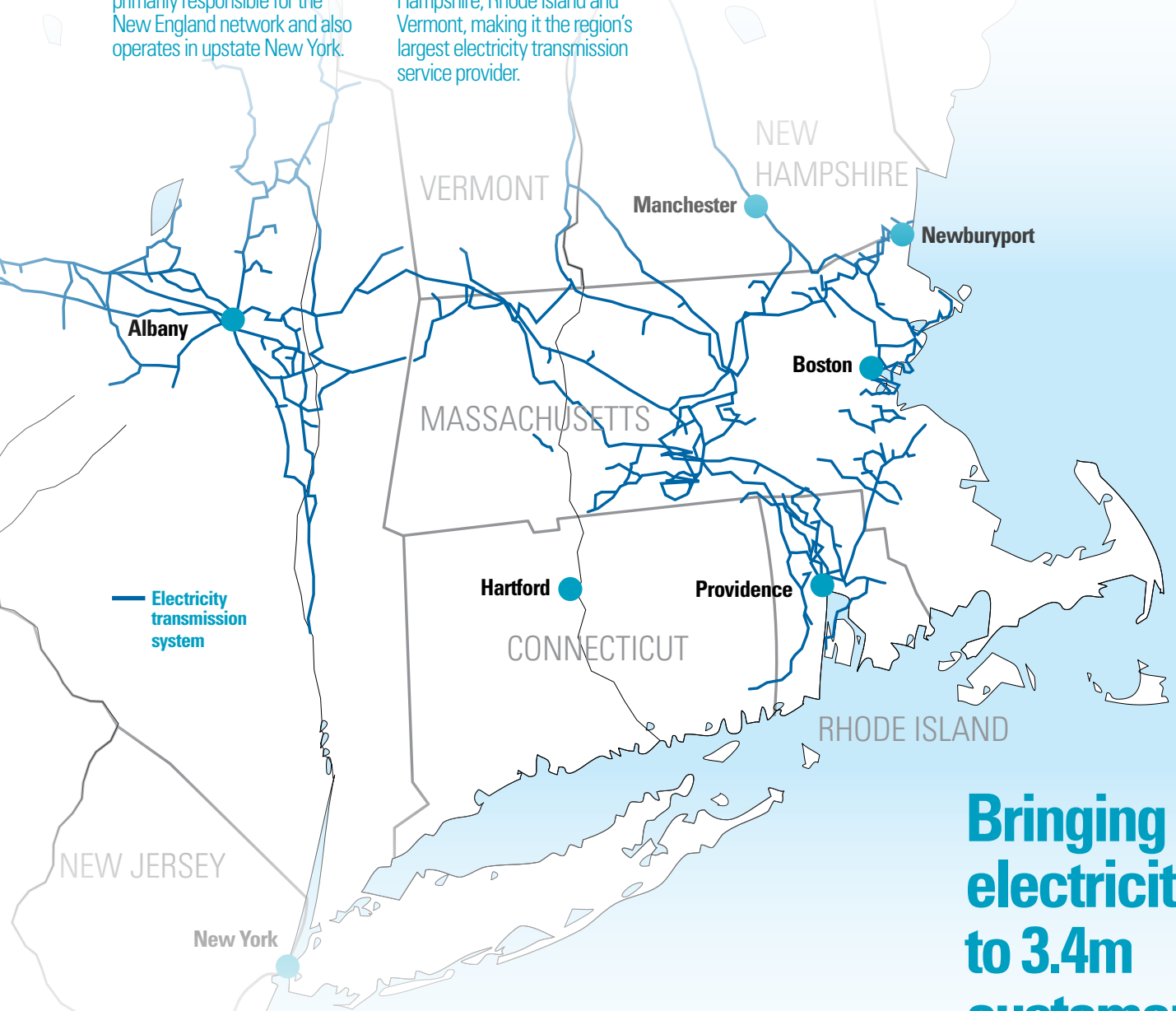
In addition to the overhead lines, the network has 90 miles of underground cable and 524 substations. Our alliance is primarily responsible for the New England network and also operates in upstate New York.

**Largest electricity provider**

National Grid has 8,600 miles of overhead power lines and its network spans upstate New York and Massachusetts, New Hampshire, Rhode Island and Vermont, making it the region's largest electricity transmission service provider.

**High voltage**

National Grid's transmission facilities operate at voltages ranging from 69kV to over 330kV.



**Bringing electricity to 3.4m customers in New England**



**Science of alliance**

We are developing a toolkit of best practice for the creation and operation of alliances across all sectors of our business. This will give us a competitive advantage with customers who understand the benefits of working in collaboration and the value of sharing risk and reward.



**Sharing what we know**

Knowledge-sharing works both ways. We have catenary support systems and techniques for working safely and efficiently on power lines spanning roads and waterways. These enable us to minimise disruption to traffic flows, and we are sharing our expertise with MJ Electric.



**Working on live wires**

Our US partners are experts in the specialist techniques that allow work to take place on live power transmission lines. This enables construction activities to proceed safely without system outages, a valuable option when energy demands require the lines to be in continuous operation.

Professional  
servicesConstruction  
servicesSupport  
servicesInfrastructure  
investments

**Victoria desalination project** This century's most precious resource could easily be fresh water. As river flows dwindle and water tables fall, demand for seawater desalination is growing fast. In Victoria, Australia, we're helping to create Australia's largest – and more environmentally friendly – reverse-osmosis desalination plants.

# Quenching THIRST

For most of the past 10 years, Australia has been plagued by drought. So much so that securing rainfall-independent water supplies is now seen as crucial to economic and population growth. By 2013 the country's five largest coastal cities will all have desalination plants – and the biggest is currently being designed by Parsons Brinckerhoff (PB) engineers just outside Melbourne.

When complete, the AUS\$3.5bn plant will supply 150bn litres of water a year to Melbourne and surrounding towns through an 84km pipeline, meeting about a third of the city's water needs. Those needs are urgent. In September 2009 Melbourne's water storage capacity was barely 30% full. To allow construction work to start quickly, we have been able to mobilise over 150 people to work on the designs without delay.

PB won the design contract in joint venture. The skills we brought to the partnership included expertise in tunnel, power and water engineering, and also environmental engineering. Desalination projects elsewhere have been criticised for their environmental impacts and our client, the Victorian State Government, was determined that this plant should be as green as possible.

This innovative project is currently PB's largest contract in Australia. Due to start pumping fresh water by the end of 2011, it is already raising our profile not only in Australia but throughout the world as the water supply and distribution industry expands to serve an increasingly thirsty planet.



**“This water is needed urgently, so we’re working fast to design and deliver the whole project.”**

Tim Ellis, Project Director, Parsons Brinckerhoff

**Award winners** Parsons Brinckerhoff was named Australia's best large engineering consulting firm in the 2009 BRW Client Choice Awards. Recognising both expertise and customer service, these are the only awards of their kind based on independent research.



**1 Seawater intake**  
Seawater enters through intake structures via long tunnels around a kilometre from the plant. It is drawn so slowly that even small fish can swim against the current, and a protective grille keeps marine life out.

**2 Filtration**  
Pre-treatment filters remove solids such as sand and sediment.

**3 Reverse osmosis**  
Filtered seawater is pushed through ultra-fine membranes under high pressure. Fresh water passes through, leaving seawater concentrate behind.

**4 Remineralisation**  
Desalinated water is remineralised to meet Australian drinking water guidelines and state health requirements.

**5 Storage**  
Drinking water is stored for distribution through the Melbourne and regional water networks, where it may be blended with water from existing catchments.

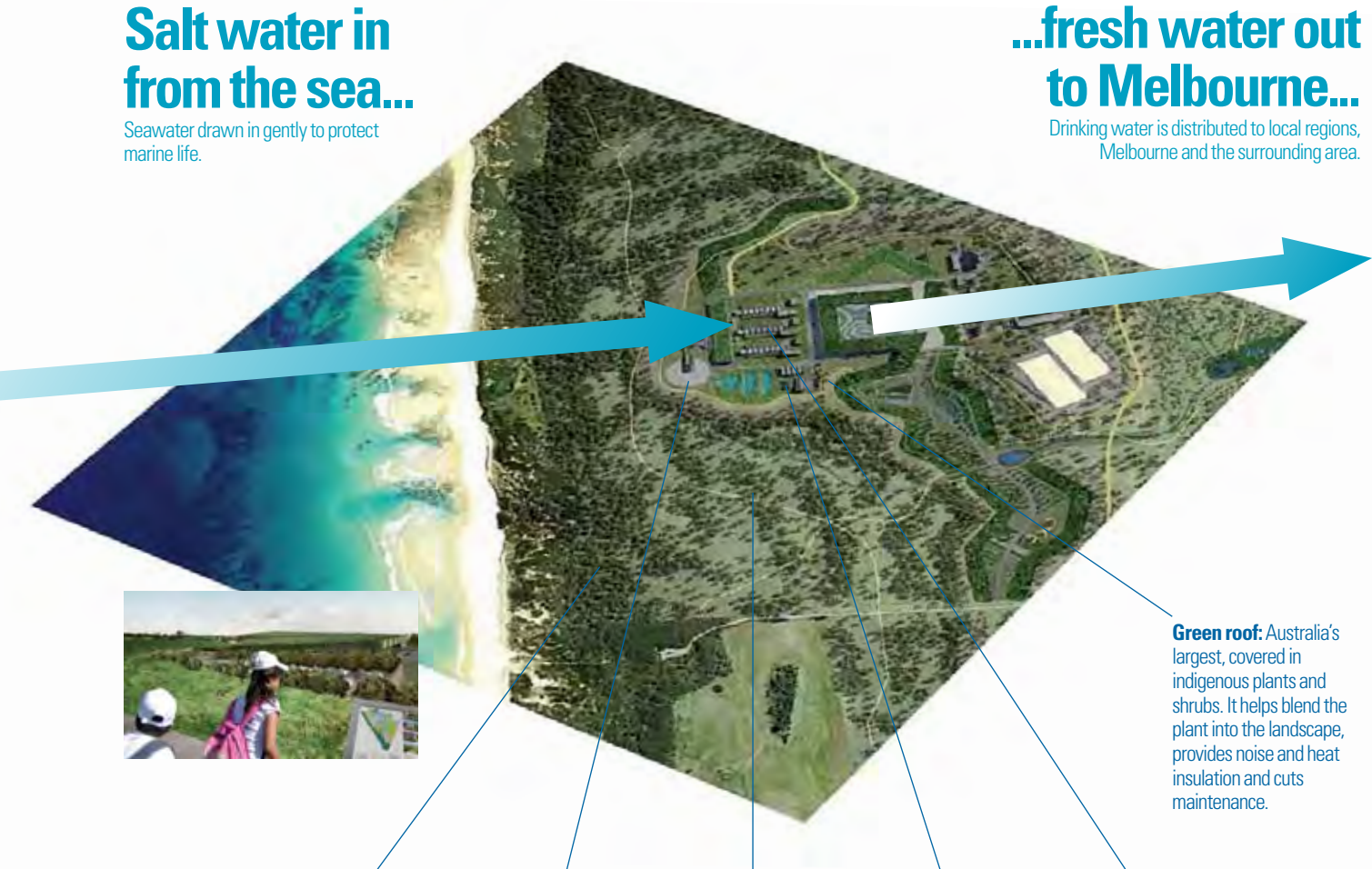
**6 Water outlet**  
Seawater concentrate returns to the ocean through diffuser structures via long tunnels about 1.4km from the plant. Ocean currents dilute it safely within seconds.

## Salt water in from the sea...

Seawater drawn in gently to protect marine life.

## ...fresh water out to Melbourne...

Drinking water is distributed to local regions, Melbourne and the surrounding area.



**New coastal park:** new 8km network of foot, cycle and bridle paths links with existing trails.

**Energy-efficient design:** energy recovery devices significantly reduce power consumption.



**Major ecological restoration:** 225 hectares around the plant, previously cleared for mining and grazing, restored to create wetlands, coastal and swampy woodlands and new habitat for local fauna.



**Green power:** energy use will be offset by 100% by electricity from new wind farms in Australia.

**Green roof:** Australia's largest, covered in indigenous plants and shrubs. It helps blend the plant into the landscape, provides noise and heat insulation and cuts maintenance.

**Reconstructed dune system:** using recycled spoil from site excavations integrates plant with the natural landscape and shields neighbours from noise.



## ...with minimal impacts





Professional  
servicesConstruction  
servicesSupport  
servicesInfrastructure  
investments

**Building Schools for the Future** In partnership with local councils, we are not just building and refurbishing schools: our brief is to transform the way education is delivered and find ways to make use of the new schools to engage with the wider community and benefit as many people as possible.

# Transforming EDUCATION

The Government's Building Schools for the Future programme encourages councils to be visionary. The two councils of Blackburn with Darwen and Bolton took the opportunity with both hands. They didn't just appoint a building and refurbishment contractor. They got together with Balfour Beatty and formed a Local Education Partnership mandated to transform the way education works in their area.

Under the new 10-year partnership we have a £450m contract to design, build or remodel and operate 27 schools. We will also be investing up to £20m equity to build several new schools and operate them on 25-year PPP concessions.

Why choose us? Certainly not because we're one of the UK's largest school builders. "We weren't looking for a builder" in the words of the councils' own project director, "we were looking for a strategic partner".

As well as planning, design and construction expertise, we have capital to invest in PPP projects and the facilities management capability to take care of them for many years. And we know about Local Education Partnerships: to lead this one we seconded a colleague from Newcastle, where Parsons Brinckerhoff is already involved in a similar partnership.



**"The councils wanted to deliver a sustainable legacy of skills and employment, as well as supporting business growth, and they chose us because we responded to that challenge."**

Mark Howden, Head of Regeneration, Balfour Beatty Education *Left*

**"Potentially it is the start of a much wider relationship. Our priority is to deliver the schools and the education transformation that the councils are seeking. But the councils are already talking to us about other opportunities outside the education sector."**

Dave Swarbrick, Managing Director, Balfour Beatty Education *Right*

**Using local contractors** When big companies undertake major capital programmes, they often bring in their existing subcontractors. Responding to the council's challenge, we are determined to ensure that local contractors don't miss out on the largest inward investment to these areas in recent times. We have promised 40% of on-site jobs to local people in Blackburn from year one, rising to 60% by the peak of the programme. We are holding Open Days to meet local firms and identify opportunities for them to pitch for work.

**A legacy of skills** We aim to grow a new generation of skilled workers. It's hard for subcontractors to offer apprenticeships: their contracts may not last long enough or they may be too small to support such a big commitment. So in Blackburn with Darwen and Bolton we will work with a not-for-profit partner who will employ apprentices directly, placing them with supply chain contractors to give them continuity and breadth of experience. Balfour Beatty Apprenticeships is an innovative approach to delivering our target of almost 26,000 apprenticeship weeks and is attracting great interest from other councils.

**Well-schooled in education** As well as the two councils mentioned here, Balfour Beatty is working on BSF schemes in Knowsley, Southwark, Islington, Greenwich, Hackney, Haringey, Stoke, Liverpool, and Manchester. We also have 10 existing PPP school concessions in the UK and a new PPP technical college about to open in Singapore. We have already committed over £60m of equity investment to the education sector.



**Meet individual needs**

**Learn**

**Quiet spaces to work**

**Imaginative timetabling**

**Open, safe environment**

**Stimulating lessons**

**Collaborative teaching**

**Bright, flexible teaching spaces**

Artist's impression of Darwen Vale school

## Our markets

# Broadly-spread growth MARKETS

Our principal markets – transport, utilities and social infrastructure – promise long-term growth, driven by factors such as population changes, urbanisation and the need to renew ageing infrastructure. Approximately three-quarters of our business comes from regulated utilities and governments, whose economic stimulus programmes have effectively reduced the impact of the financial crisis for us.

We believe the short- and long-term prospects for our markets are good; and while there may be some turbulent waters in between, the diversity of our markets will help us navigate them successfully.

## What's driving infrastructure growth?

Our principal international infrastructure markets promise long-term growth driven by a number of factors:

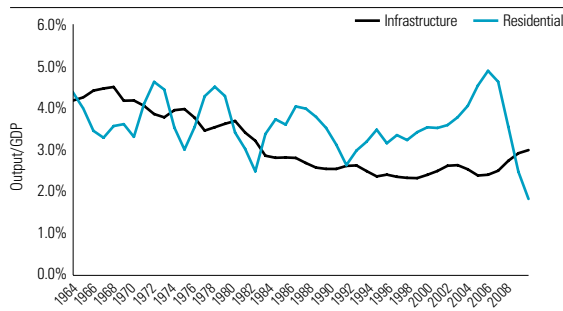
Population growth, demographic shifts and urbanisation, requiring major new infrastructure investment

International trade, which depends on quality transport networks, stimulating investment in port, road, rail and aviation infrastructure

Sustainability concerns, requiring the upgrading of power and water treatment facilities to meet more stringent air and water quality standards, and also stimulating investment in more efficient transportation networks

Ageing infrastructure needing extensive renewal and upgrading, particularly in the developed economies in which we operate.

### US construction as GDP%



Source: For GDP – US BEA (Bureau of Economic Analysis), for construction output – US Census Bureau.

As a long-term trend, infrastructure expenditure in our main markets has been relatively stable, particularly when compared to the residential, commercial and industrial markets. As economic stimulus programmes, introduced as a result of the financial crisis, tail off over the next few years, governments will be under increasing pressure to reduce public spending. Investment in government-funded infrastructure, such as large UK road projects, will inevitably be reduced while public finances recover. So we will be looking to other infrastructure sectors and territories to offset that reduction in opportunity.

Some infrastructure investment, particularly large capital projects, can be deferred – but spending on power generation and transmission and water networks will remain an urgent necessity. We are advantaged by the diversity of infrastructure markets themselves, which continue to provide new areas of opportunity – and by the diversity of our own capabilities.

## Procurement trends

There is a continuing trend for infrastructure owners to take a more sophisticated approach to infrastructure procurement. They look to suppliers like Balfour Beatty to provide a broader range of integrated services, to engage earlier in the planning and design process, to get involved in the lifecycle management of assets, and increasingly to help finance both assets and services. This gives us an expanding range of roles to pursue on any given project or programme.

## Developed and emerging economies

There are significant differences between our infrastructure markets in developed and emerging markets.

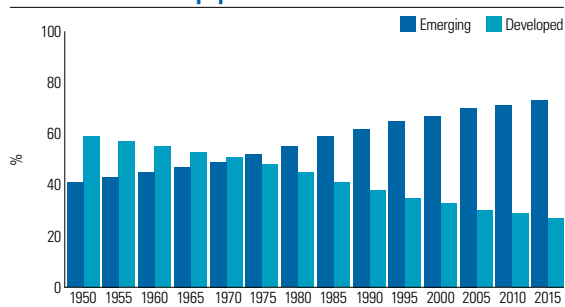
Across most developed economies, much infrastructure is nearing the end of its service life and must be replaced. Ageing electricity generation and transmission assets cannot meet regulatory standards and have to be replaced or upgraded. And, against a background of climate change and rising global demand for water, there is a strong impetus to reduce leakage from elderly networks and enhance storage and flood control facilities.

In the UK, the regulated utilities maintain investment through the economic cycle, in line with the plans agreed with their regulators at the start of each regulatory cycle. This applies to power transmission, water and rail. In the near term, Government investment in areas such as roads, education and health may be squeezed by fiscal deficits; but where the pursuit of cost efficiency leads to more outsourcing and PPP arrangements, this will create new opportunities. Industrial and commercial markets should recover earlier than public markets.

In the US, as in the UK, Government will need to curb spending. However, there is a continuing need for new infrastructure in the sunbelt states where population is rising – fed by migration from the north, immigration from the south and relatively high birth rates.

In the developing world, a key driver for infrastructure investment is urbanisation and the consequent massive shifts in population. In 1975 there were only three cities with a population over 10m people. By 2015 the UN projects there will be 22 and 18 of these will be in emerging economies. Our markets in Asia, Australia and South Africa were generally not hit as hard by the recession as the US, Europe, and the Middle East and are recovering faster, aided by the recovery of commodity prices.

### Breakdown of urban population 1950–2015



Source: United Nations

## Markets and opportunities

### Transportation

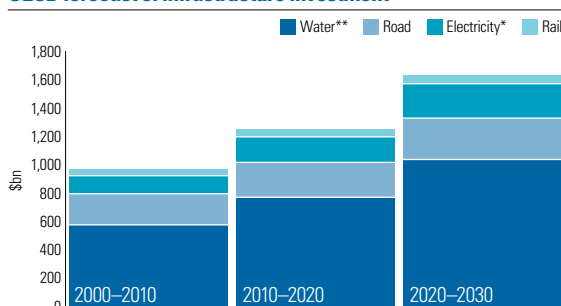
#### Roads

Road usage tends to rise with GDP. In the near term UK investment is likely to remain flat, but with a change in emphasis from building new roads to managing the existing network better, widening roads and managing traffic flows more effectively – a trend that plays to our strengths (see M25 case study on page 26). Indicators are that political will in the US is gathering for the passage of a major road infrastructure expenditure bill.



## Our markets

### OECD forecast of infrastructure investment



\* Transmission and distribution only \*\* Only OECD + BRICs

#### Rail

In the UK we should continue to benefit from the substantial programme of infrastructure renewals and enhancements agreed with the rail regulator.

In the US, the recovery of the freight market should restore demand for rail investment and we expect the building and upgrading of metro systems to be a good medium-term market – driven both by urban population growth and the need to reduce road congestion in cities.

The success of European high-speed rail programmes is inspiring other governments, including the US, to consider investing in high-speed links and electrification. As a world leader in electrification, we are well placed to benefit from the growing global trend to shift people out of cars and planes onto lower-carbon electrified rail services.

In emerging markets, urbanisation will continue to drive demand for more investment in metros and inter-city networks.

#### Aviation

Airports around the world have been a major market for Balfour Beatty, from Chep Lap Kok in Hong Kong to Terminal 5 at Heathrow. The Parsons Brinckerhoff (PB) acquisition has further strengthened our position in airports. This market is closely linked to the economic cycle and is expected to show some early recovery.

## Utilities

#### Power

From 2016 the UK faces a looming energy gap as up to a third of generating capacity may be closed because it cannot meet EU clean air regulations. Over the following years a succession of nuclear plants will reach the end of their service lives. Bridging this gap will require a major building programme encompassing a mix of generation platforms. Balfour Beatty, including through PB, has a substantial position in many aspects of power generation which should give us access to this market. The UK transmission market also offers considerable opportunity – driven by ageing assets and also by renewable energy sources, such as wind power, often in remote locations, which will need to be linked to centres of population.

The US transmission market is also strong (see New Energy Alliance case study on page 28). Spending has doubled since 2002 and renewables are adding to demand.

Emerging markets offer major opportunities in generation and transmission driven by economic growth and demographic shifts. PB strengthens our position because of its experience and track record in both developed and emerging markets in Australia, Asia, the Middle East and South Africa (where PB is programme managing one of the world's largest power station projects).

#### Water

The UK is a stable market, committed to major renewal of ageing infrastructure, under regulated five-year plans. The US has similar issues with ageing infrastructure, particularly on the East Coast, accentuated by population shifts to the sunbelt states. Water assets are largely funded by municipalities and activity is likely to increase with economic recovery when difficulties raising bond finance ease. In developing economies rapid urbanisation demands increasingly complex engineering solutions, particularly for waste water treatment and disposal. The market for desalination is also growing (see Victoria desalination project case study on page 30).

## Social infrastructure

Social infrastructure includes education, healthcare facilities and social and military housing.

#### Healthcare

In the UK a period of major hospital building is winding down. Pressures on public spending are likely to constrain major new projects – but will also encourage outsourcing, creating support service opportunities for us.

In the US, healthcare is currently a private sector market and will continue to respond to demand driven by an ageing population and migration. Many of our other geographic markets also offer considerable opportunity as they develop their healthcare provision to meet the needs of fast-growing or ageing populations.

#### Education

In the UK all political parties are committed to investment in schools, so a level of spending should be sustained whichever party wins the 2010 election. Our experience in Building Schools for the Future (BSF) is a competitive advantage, as variations of such models are likely to continue to be used in education (see Building Schools for the Future case study on page 32).

In the US, both lower and higher education should continue to be an attractive market. Demand continues to be driven by population shifts and a birthrate bulge working through the system.

#### Social and military housing

In the UK, social housing investment has nearly doubled since 2003. More recently, activity has been reduced by the fall-off in private sector housebuilding, to which many social housing projects are linked; but we expect activity to recover in the medium term as the private housing market recovers.

In the US, we expect a number of opportunities to arise in the military housing market, in which we are a strong player, and see a continuing flow of prospects from the military base realignment and closure programme (BRAC). We also see opportunities as the PPP model extends to other forms of accommodation projects.

## Industrial and commercial

The private sector accounts for much of the remainder of our business, and involves the construction of offices and other buildings for our retail, industrial and commercial customers in the UK, US, Asia and the Middle East. We are established suppliers of construction services and PB greatly strengthens our position in the related provision of professional services. This market moves with local economies and should recover early. We expect to increase our exposure in this sector over the next few years, to help offset changes in our other markets.

## Our businesses

# Four linked BUSINESSES

Our capability continues to broaden and deepen. Each of our businesses is a major player in its field, and in 2009 they continued to grow in their own right as well as through collaboration with one another.

As the following individual business reviews show, each has its own competitive strengths, broadly-spread markets, long-term customer relationships and strategy for continued growth. It is their individual success that makes our integrated offer so formidable: there are no weak links.

## Our businesses

**Professional services**

Construction services

Support services

Infrastructure investments

# Professional services

The acquisition of Parsons Brinckerhoff (PB), one of the world's leading professional services companies, has transformed the Group's capabilities in this segment. The integration is proceeding well and there are many opportunities to bring the Group's overall capabilities together and provide combined solutions for customers.

### What do we do?

Programme and project management

Architectural services

Project design

Technical services

Planning

Consultancy

### What's happened?

Transformational acquisition of PB completed in October 2009

Group now has a leading position in US civil infrastructure, especially in transportation

Strengthens presence in existing geographic markets and extends access to new geographies

Good progress integrating PB, with early successes

Balfour Beatty's Professional services businesses performed well in the year

### What's next?

Successful integration of PB into Balfour Beatty Group

Capitalise on growing range of large-scale opportunities to combine professional services with downstream construction capabilities

Leverage Heery's building portfolio with PB's broader capabilities in the US

Expansion in power and water markets

US Federal market and Australia areas of growth

### How we performed

**Revenue\***
**£558m**

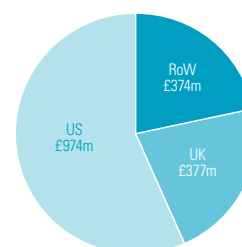
2008: £290m

**Order book**
**£1.4bn**

2008: £0.4bn

**Profit\*\***
**£13m**

2008: £14m

**Revenue pro forma split, including pre-acquisition PB**


\* Including £5m share of joint ventures and associates (2008: £nil).

\*\* Profit from operations before £23m exceptional charges (2008: £nil) and £8m amortisation of intangible assets (2008: £1m).



### MCGHealth cancer centre

Heery was responsible for a unique collaboration with patient-advisors, as well as administrators and physicians, to design a state-of-the-art facility at the MCGHealth cancer centre in Augusta.

## The strategy

The acquisition of Parsons Brinckerhoff (PB) transformed the Group's Professional services business and is a key step in Balfour Beatty's strategy of becoming a global leader in infrastructure services.

The Group is now one of the world's leading companies in professional services for infrastructure markets and has a leading position in US civil infrastructure, especially in transportation.

As well as extending Balfour Beatty's global reach and ability to access new markets through professional services, the depth and breadth of the Group's capabilities in existing geographic markets has been strengthened.

PB's strong brand is being maintained, with Balfour Beatty's existing Professional services businesses, Heery in the US and Balfour Beatty Management in the UK, being integrated into PB. Heery will continue to operate under its own brand as an affiliated company within PB.

The strategy in Professional services comprises the following key elements:

- In the US, incremental reinforcement in transportation in terms of geography as well as capability, through selective recruitment and infill acquisitions; expansion in power and, in due course, in water, organically and through acquisitions; and further development in federal markets.
- In the rest of the world, geographic expansion, particularly in emerging markets, by leveraging the Group's global credentials in transportation, power and the programme management of large complex projects.
- Enhancing the strong base of technical and project management expertise to compete for large-scale projects on a global basis.

In addition, there is a growing range of large-scale opportunities for companies who can integrate professional services with downstream delivery capabilities.

The increasing scale and complexity of major infrastructure projects has seen an evolution in customers' procurement strategies and a need for interface management from lead suppliers. Major procurers of infrastructure are also driven by the need to manage and control costs and recognise the benefits that early engagement, partnership and long-term relationships can bring.

## The marketplace

Around 56% of the Group's revenue in professional services is now in the United States.

The US transportation market is a key area. While the re-authorisation of the US transport bill has been delayed, there is expected to be a significant increase in long-term funding in this sector.

The power market in the US, where the Group has a relatively small presence, and the water market, where its presence is currently even smaller, have significant long-term growth potential.

There are a number of opportunities in the US Federal market and it is an area which is being addressed through a combined Professional services and Construction services strategy.

There are opportunities to maintain and grow the Group's Professional services activities in the US buildings market through geographic diversity, combining Heery's capabilities with PB's, leveraging Heery's track record in design-build and focusing on Federal work, particularly in the justice, healthcare and aviation sectors.



## Our businesses – Professional services

In the UK, there are opportunities in the transport and power sectors in the medium term.

Australia, where PB operates in the transport, power, water, consulting and building sectors, continues to be a strong market, with opportunities driven by the country's natural resources base and Government funding for infrastructure projects.

The Group now has a presence in a number of countries in the Far East with a range of opportunities, driven by the growth in infrastructure.

There has been a protracted downturn in Dubai, though there are future opportunities in power and transportation in the Middle East.

In South Africa, there are opportunities to build on our work in the power market and to expand the business.

### Financial performance

Profit from operations, before exceptional items and amortisation, reduced by £1m to £13m (2008: £14m). The result was impacted, as anticipated, by the seasonal nature of PB's profit profile. PB's results have been consolidated into the Group's results from 27 October 2009, the date on which the acquisition was completed.

Balfour Beatty's Professional services businesses performed well in the year. In the US, Heery had another good year, with revenue and profit increasing. In the UK, Balfour Beatty Management also performed well, with the King's Cross Northern Ticket Hall opening at the end of 2009.

The integration of PB into the Group is proceeding well. The first phase was completed by bringing Balfour Beatty's existing Professional services capabilities under the overall management of PB and the Group is now focusing on capitalising on the significant opportunities to integrate professional services with the rest of its businesses.

As a result of the acquisition of PB, the order book in Professional services increased by £1.0bn to £1.4bn at the year-end (2008: £0.4m).

### Operational performance

#### Parsons Brinckerhoff

PB operates through a network of over 100 offices and has approximately 12,500 employees. This extensive international network provides a local presence and local customer relationships that support PB's global expertise and reputation.

PB was a private company entirely owned by its shareholder employees. Strong support for the acquisition was obtained, with acceptances from 99% of those eligible to vote, significantly in excess of the required 75%.

Good progress has been maintained on a number of PB's major projects including:

- the US\$6.6bn O'Hare International Airport modernisation project in Chicago, where PB is construction manager;
- the US\$7.6bn Tunnel Project that will more than double NJ TRANSIT's commuter rail capacity between New York and New Jersey by 2017. PB, in joint venture, is providing preliminary engineering, quality assurance, tunnel engineering, civil/structural/systems, facilities engineering, architecture, project controls and environmental services. Tunnel construction began in 2009, with completion expected in 2017;
- the design of the I-69 highway project for the Indiana Department of Transportation, comprising the final design for over 50 miles of new interstate highway from Oakland City to Crane, Indiana;
- design and engineering assistance for the US\$2bn Dulles Corridor Metrorail extension, an 11.4 mile rail extension, including six new stations, in Virginia, connecting to Washington Dulles International Airport.
- the design of the AUS\$3.5bn Melbourne desalination project, where PB is the designer in joint venture (see case study on page 30);
- the East London Line project and North London Railway upgrade, where PB is the programme manager.

A joint integration team has been formed to ensure the smooth transition of PB into Balfour Beatty and to ensure that the Group maximises the opportunities available to it in the coming months and years.



#### Honolulu

PB is responsible for the planning and design of a new, largely elevated, 20-mile transit system in Honolulu.

The Honolulu high-capacity transit corridor project will use light metro rail technology in a corridor that transects dense urban and suburban neighbourhoods.

PB has carried out a preliminary engineering and environmental study and approval to proceed is anticipated in 2010.

## King's Cross

Transport for London chose Balfour Beatty's integrated approach for the project management and delivery of the Northern Ticket Hall at King's Cross.

Balfour Beatty was responsible for overall programme management, as well as providing civil engineering, piling and mechanical and electrical services.



At the end of 2009, PB and Heery won a project to oversee reconstruction and improvements on the Wacker Drive Viaduct in Chicago's Central Business District. The US\$100m project was awarded by the Chicago Department of Transportation (CDOT), which is responsible for the maintenance, repair and rebuilding of roads, bridges and transit line extensions in the city of Chicago.

In Singapore, PB was appointed to provide consultant services on the Jurong hospital project in Singapore. When it is completed in 2015, the hospital will be the largest hospital in Singapore, providing acute inpatient and outpatient care with a capacity of 550 beds.

Early in 2010, PB was also appointed by the New Jersey Turnpike Authority, as part of a joint venture, to provide construction management services for the Interchange 6 to 9 widening programme.

In the UK, PB was appointed to advise on the development of the major £600m Gateway gas storage system.

### Existing professional services businesses in the UK/US

In the UK, Balfour Beatty continued to provide programme and project management skills for customers such as National Grid, British Energy, BAA, the Olympic Delivery Authority and the Highways Agency.

Work on the M25 widening scheme; the Aquatics Centre, being built for the London 2012 Olympics, and the Group's alliances with National Grid in the UK all made good progress.

Balfour Beatty was also selected, in joint venture, to support the delivery of National Grid's US electricity transmission capital investment programme in New England over the next five years (see case study on page 28).

In the US, Heery provides a mix of services with a strong emphasis on State and Federal work, especially in the education, justice and healthcare sectors.

In the military healthcare sector, two Multiple Award Task Order Contract (MATOC) contracts were secured with the US Air Force during the year.

The US\$44m design and build contract for the complete renovation of Langley Air Force Base's Hospital to an outpatient clinic is being co-ordinated through the Fort Worth District of the US Army Corps of Engineers.

This followed an earlier MATOC contract for the complete renovation of Patrick Air Force Base's 72,000 sq ft outpatient clinic.

The new MCGHealth cancer centre in Augusta, Georgia, for which Heery provided design services, opened during the year.

In the justice sector, Heery was appointed by the Federal Bureau of Prisons to provide construction management for a 1,000-plus bed facility in Yazoo City, Mississippi.

The \$28m expansion of the Adams County justice centre was completed during the year, for which Heery provided design services. Good progress was also made on the \$240m contract for the management and construction of Berlin Prison in New Hampshire.

In the education sector, Heery was awarded a construction management contract by Eagle Mountain-Saginaw Independent School District for its new high school, stadium and career technology facility located north-west of Fort Worth, Texas and continued its work on the US\$299m Durham (NC) Public Schools building programme.

Heery also secured a contract with the National Archives and Records Administration (NARA) for supplemental construction management and design-build services at NARA facilities across the United States. This is the third time Heery has secured this contract.

Good progress was made on management and design services at Louis Armstrong New Orleans International Airport; construction management services for a new Social Security Administration building in Baltimore; and at the new headquarters complex for the Food and Drug Administration in Silver Spring, Maryland.

Overall, Heery's order book is down year-on-year but the medium-term outlook is positive.

## Outlook

The acquisition of PB has transformed the Group's capabilities in professional services.

PB is one of the world's leading professional services firms focused on infrastructure and has a track record of profit growth and strong cash generation.

The outlook for PB remains consistent with that at the time of the acquisition. We anticipate that the Professional services segment will account for approximately one quarter of the Group's profit from operations in 2010.

## Our businesses

Professional services

**Construction services**

Support services

Infrastructure investments

# Construction services

There was a particularly strong performance, both in the UK and especially in the US. There were a number of good contract wins in the UK education sector and in Hong Kong. The acquisitions of RT Dooley and SpawMaxwell boosted our US capabilities.

### What do we do?

Building

Construction management

Refurbishment and fit-out

Mechanical and electrical services

Civil engineering

Ground engineering

Rail engineering

### What's happened?

Strong performance in US building

Good performance in UK building, particularly in education sector

High levels of activity in UK roads, including M25 widening

Acquisitions of RT Dooley, SpawMaxwell and Strata Construction

Good year in Hong Kong with record order book

Steady performance in the Middle East

Reduced volumes in UK and German rail markets

### What's next?

Strong pipeline of opportunities in UK education

Maintaining progress and delivery on major UK road schemes

Opportunities in UK waste, power and law and order markets

Federal projects in the US

Potential infill acquisitions in the US

Stimulus-related expenditure in US civil infrastructure

Opportunities to provide integrated services, combining construction and professional services capabilities

### How we performed

Revenue\*

## £7,491m

2008: £7,095m

Order book

## £8.2bn

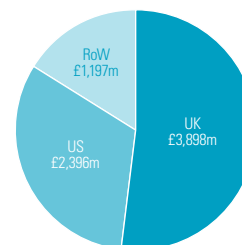
2008: £9.5bn

Profit\*\*

## £207m

2008: £167m

### Geographical split



Revenue

\* Including £673m share of joint ventures and associates (2008: £702m).

\*\* Profit from operations before £16m exceptional charges (2008: £6m) and £20m amortisation of intangible assets (2008: £15m).





### M74

The new 8km stretch of M74 is making good progress, as part of a substantial infrastructure investment in Scotland's transport network. The scheme is designed to improve journey times and reduce traffic congestion on roads across Glasgow and South Lanarkshire. The new section of the motorway plays a key role in the transport plan for Scotland's delivery of the Commonwealth Games in Glasgow in 2014.



## The strategy

Construction is a local business and knowledge of the local supply chain (labour and materials) is critical.

One of Balfour Beatty's main differentiators is the depth and breadth of its expertise, gained from operating in the UK, mainland Europe, the US, Middle East and Far East, combined with its local knowledge in each market.

Balfour Beatty works in partnership with customers who value the highest levels of quality, safety and technical expertise.

In the UK, the Group has added to its presence in UK regional construction markets where it had previously had little coverage, through a series of acquisitions.

In the US, Balfour Beatty has expanded its presence in new geographic markets and will continue to pursue infill acquisitions. The business currently operates widely across the US with significant operations in Washington, the Carolinas, Florida, Texas and California.

The combination of professional services skills and project delivery capabilities should enable the Group to access attractive, high-value, complex projects.

In the rail sector, the integration of PB will allow the Group to enter the full turnkey market as its capabilities now include systems integration.

In all its markets, Balfour Beatty has the track record and capability to position itself for expenditure by public, regulated and private sector customers and the Group has taken a series of actions to recognise and anticipate future trends. The Group's exposure to end markets and to different geographies provides a diverse business model in this segment.

## The marketplace

In the UK, Balfour Beatty serves a range of markets. While the general election in 2010 creates uncertainty over future Government spending plans, the size and quality of the order book enables the Group to position itself for customers' future priorities.

The education sector, for instance, continues to offer the Group a range of opportunities.

In the US, while current operational performance is strong, the economic downturn has resulted in competitive pressures and a reduced order book. However, as the market recovers, Balfour Beatty is well-positioned in the regional building markets in which it operates. The acquisitions of RT Dooley and SpawMaxwell have enhanced the services Balfour Beatty offers. There are opportunities in the Federal market and there is potential for stimulus-related spend in sectors such as highways and bridges, rail, water and wastewater infrastructure.

In South-East Asia, Balfour Beatty has a leading market position and is well-positioned to capitalise on the strong growth in infrastructure in Hong Kong and the high-quality work secured recently.

Market conditions are challenging in Dubai but in the longer term there is a demand for new infrastructure. The market in Abu Dhabi remains positive, with further opportunities in Qatar and Oman.

In Europe, and in other selected international markets, Balfour Beatty's leading position as a fixed rail infrastructure contractor continues to provide a range of opportunities for the Group.



## Our businesses – Construction services

### Financial performance

Construction services had a particularly strong year with good performances from the building businesses, especially in the US.

Profit from operations, before exceptional items and amortisation, rose by 24% to £207m (2008: £167m), or 14% at constant currency.

There was a good overall performance in UK building, in a difficult market, with good contract wins in the education sector, partially offset by a reduced volume of work in the regional building business.

There were also strong performances in the UK major and regional civil engineering businesses, with good progress on a number of major road projects including the M25. This strong performance was partially offset by a reduction in the Group's smaller ground engineering business.

The Group's businesses have reacted quickly to reduce costs where volumes have reduced. In addition, we will continue to seek broader procurement and cost savings through our operating companies working together more closely.

Balfour Beatty Construction in the US performed strongly in 2009 and while the business has been working through the order book, there were encouraging contract wins in Texas, Georgia and the Carolinas at the end of the year.

Performance in US infrastructure was steady.

There was a strong performance in Hong Kong, with a number of contract wins resulting in Gammon's order book increasing 10% year-on-year. The acquisition of PB gives us further exposure to Asia, as well as Australia.

In the Middle East, performance was steady. The market for new construction work in Dubai remains difficult, while payments for completed building work remain slow. The Group continued to win building services work elsewhere across the region.

The rail businesses, which operate in the UK, continental Europe and other selected international markets, were affected by reduced volumes in the UK and Germany at the beginning of the year. After a slow start, the order book position in Germany and Sweden improved by the end of 2009.

The order book in Construction services reduced by 14% to £8.2bn during the period, an 8% reduction at constant currency.

### Operational performance

#### UK building

Completed projects in the year included work on the Knowsley Building Schools for the Future (BSF) scheme in Merseyside and a new diagnostic and treatment centre in Pontefract, as part of the Pinderfields and Pontefract Hospitals PPP.

In the commercial sector, work was completed on developments in Tudor Street and Gresse Street in London. While the commercial sector is currently very quiet, there are some first signs of recovery and there will be opportunities for the Group when this market picks up again.

Good progress was made on the Eastern Campus Development Programme at Heathrow Airport for BAA and on the major £550m hospital scheme in Birmingham.

In Scotland, good progress was made on the Royal Museum in Edinburgh, the Ravenscraig regional sports facility and on the Victoria Hospital in Fife, which is due to be completed in 2011.

Early in 2010, Network Rail selected Balfour Beatty to undertake major improvement work at Edinburgh's Waverley Station. The £50m contract will be completed in 2013.

New contract wins were particularly strong in the education sector in 2009.

Awards included the £77m contract to build new student accommodation at the University of Exeter and the appointment as a design and build partner for Stoke-on-Trent City Council's £250m BSF programme.

Balfour Beatty is the construction partner in a number of BSF schemes in Hackney, Haringey and Greenwich with a total value of over £220m and is framework contractor providing construction services to both the £180m scheme for Manchester City Council and the £100m scheme in Liverpool.

As part of the National Academies Framework, Balfour Beatty was appointed by Lincolnshire County Council for three design and build contracts totalling £57m. This followed its appointment as preferred bidder for the £120m West Sussex National Academies Framework and contract awards on academies in Sunderland, Southwark and Darlington.

Early in 2010, financial close was achieved on the £450m Blackburn with Darwen and Bolton Councils BSF programme. The project involves the delivery of a major capital investment programme over a number of phases (see case study on page 32).

Bidding for more BSF schemes and National Academies Frameworks will continue in 2010.



#### Trent River Bridge

The Trent River Bridge replacement in New Bern, North Carolina is scheduled for completion in 2010. The work is being undertaken in an environmentally-sensitive area where two rivers meet and involved the demolition of a 1954 swing bridge.

#### South Lodge

At the senior living care home facility at South Lodge in the Midlands, 99 high-quality apartments and suites are under construction. The market for new residential assisted living facilities in the UK is increasing, reflecting increased life expectancy.



### Parkland Hospital

Artist's impression of the new 1.9m sq ft Parkland Replacement Hospital, for which Balfour Beatty won a construction services contract during the year. On completion in 2014, it will be the largest hospital building in Dallas, Texas, replacing the existing 55-year-old hospital.

Volumes were down in the regional building market. In response to these market conditions, there was success in securing additional positions on construction frameworks including Devon County Council's Construction Framework South West and the Olympic Delivery Authority's general builder framework.

There continue to be opportunities in the student accommodation, affordable housing and senior living sectors.

#### UK building services

Balfour Beatty Engineering Services was formed during the year to combine the skills and resources of Balfour Beatty companies already operating in this market (Balfour Kilpatrick and Haden Young) and to match the needs of customers across the UK.

It is involved in the internal environment of buildings: designing, supplying and installing mechanical and electrical engineering services.

Good progress was made on a range of projects during the year including the Aquatics Centre in London, hospital schemes at Birmingham and Fife, education schemes including Southwark and Islington, and on the A3 Hindhead and A1(M) Hatfield tunnels.

Work for London Underground and EDF Energy in the power market continued to progress well.

Successful delivery, ahead of schedule, on the Whitelee wind farm project, Europe's largest onshore wind farm in Scotland, led to work being secured at the Arecleogh wind farm for ScottishPower Renewables.

Although market conditions are challenging, Balfour Beatty is well-positioned as a market-leading business in this sector. There are good opportunities in the health, education, power systems and power project markets, including nuclear and oil and gas.

#### UK civil infrastructure

There were high levels of activity in the roads sector.

Work started on the substantial M25 scheme in May 2009, which will add 40 lane miles of additional capacity to the M25 (see case study on page 26).

Good progress was also made on the M74, where the Interlink joint venture is designing and constructing an 8km extension to the motorway in Glasgow; on the A421 project in Bedfordshire and the A46 Newark to Widmerpool contract.

Excellent progress was made on the A3 bottleneck alleviation scheme at Hindhead and the Devil's Punchbowl.

New wins in the year included the design and construction of an 8.25km two-way single carriageway, as part of the Carlisle Northern Development Route PPP scheme, and an Early Contractor Involvement (ECI) contract for the £127m Norwich Northern Distributor Road.

In January 2010, further roads projects were secured on the A11 Fiveways to Thetford Improvement ECI contract and the A487 Porthmadog, Minffordd and Tremadog Bypass.

In February 2010, Balfour Beatty was one of four delivery partners to be appointed to the Highways Agency's £2bn managed motorways framework contract.

The Northern Ticket Hall at King's Cross was handed over on time, as was the extension and upgrade of the East London Line.

Further work was secured on the reconstruction of Blackfriars station in London (see case study on page 22).

Also in London, good progress was made on a roads and bridges contract at the Olympics site.

The regional civils market is holding up well, in spite of economic conditions, and good progress was made on a range of projects including the Forth Bridge and the construction of two new platforms at Glasgow Central station.

Volumes were down in ground engineering, in line with the rest of the market, with very little work in the private sector. Foundation work for The Shard in London, which will be Europe's tallest mixed-use building, was completed during the year.

Nuclear is an important potential market for the Group. In addition to current work at Sellafield, Balfour Beatty is positioning itself for the new build programme in the UK, which could start in 2012/13. Balfour Beatty is partnering with AREVA, a world leader in nuclear power, to ensure effective delivery of a fleet of future EPR nuclear reactors (EPRs).

Balfour Beatty has also formed a joint venture with VINCI Construction to help deliver project management, construction and civil engineering infrastructure for the EPR programme in the UK, both within the AREVA partnership and to bid for EPR sites for utilities adopting alternative procurement models, including EDF.

Balfour Beatty will be bidding for a range of contracts as part of the Crossrail project, the new rail route planned through London.

Balfour Beatty is part of the Forthspan joint venture bidding for the Forth Replacement Crossing, the UK's most significant new bridge in 20 years.

#### US construction

Good progress was made on current contracts including the Walter Reed National Military Medical Center in Maryland and the US\$253m expansion of the Peabody Orlando hotel in Florida. In November, the Ritz-Carlton Charlotte was completed successfully, designed to achieve LEED Gold certification as defined by the US Green Building Council.

## Our businesses – Construction services

### Institute of Technical Education, Singapore

The new ITE College West Campus in Singapore is scheduled to be completed for the first intake of students in 2010.



Major contract wins in the year included the Mecklenburg County Jail expansion project in Charlotte, North Carolina; a new, 1.9m sq ft hospital for the Parkland Health & Hospital System in Dallas and the new US\$80m Perot Museum of Nature and Science in Dallas.

Work was also secured with the US Army Corps of Engineers including pre-construction and construction services for the replacement hospital at Fort Riley and contracts at Fort Jackson in South Carolina, Fort Benning in Georgia and Lackland Air Force Base in San Antonio, Texas.

Additional work included the US\$325m contract to lead the design-build on the Omni Dallas Convention Center Hotel, a \$60m design-build contract for the Hays County Government Complex and general contracting services on the almost 1m sq ft Las Colinas Entertainment Center located in Irving, Texas.

Balfour Beatty's position in the US construction market through its regional divisions based in Texas, Florida, North Carolina, California and Washington D.C., was supplemented by two acquisitions during the year.

In February 2009, RT Dooley Construction, a family-owned construction firm based in Charlotte, North Carolina, was acquired for approximately US\$40m. RT Dooley specialises in corporate headquarters, corporate interiors/fit-out and "mission critical" work such as data centres and call centres.

In November, SpawMaxwell Company, the largest interior construction contractor in Texas and the sixth largest general contractor in Houston, was acquired for up to US\$25m. The acquisition enhances Balfour Beatty's position as a single source of construction capabilities in the Texas building markets and is in line with the strategy of expanding in selected geographic markets in the US.

As part of the re-organisation of the Group's businesses in the US following the acquisition of PB, both Charter Builders (based in Dallas) and Barnhart (based in San Diego), which were previously managed by Heery, became part of Balfour Beatty's construction operations.

These acquisitions and additions to the US construction business broaden the geographic coverage and range of services offered to customers. The integration of these businesses is proceeding well. Balfour Beatty's construction operation in the US now generates in excess of US\$3bn of revenue, providing pre-construction and construction management, design-build and general contracting services.

Looking forward, market conditions are difficult with some margin pressure and little pick-up in the private sector.

Priorities for the business will be continuing to win Federal projects, working in conjunction with other Group businesses in the US to maximise synergies and opportunities to share knowledge, integrating the new capabilities into the business and pursuing infill acquisitions in new geographic areas.

### US infrastructure

Balfour Beatty operates in the roads, bridges, tunnels, water and wastewater markets in the US heavy civil engineering market.

Good progress was made on a number of projects including the US\$146m Dorchester Tunnel project in Boston for the Massachusetts Water Authority; the construction of the new Trent River Bridge in North Carolina; and the US\$208m Vineyard Water Treatment Plant in Sacramento, where the water treatment capacity at the plant is being doubled.

In August, Balfour Beatty was selected, in joint venture, by the North Texas Tollway Authority to work on a major design-build road project in the Dallas-Fort Worth region. The contract for phase four of the State Highway 161 Tollway is expected to be around US\$415m (£252m).

Overall, the civil infrastructure market was extremely price-competitive during 2009 and the Group has taken the long-term decision not to follow the market down in low bidding. As a consequence, the order book has reduced.

However, there are indications that the infrastructure stimulus programme aimed at the areas in which Balfour Beatty operates – highways and bridge construction, water and wastewater infrastructure – will result in more project opportunities in the near to medium term, vindicating the decision not to follow the market down during the year.

### South-East Asia

Balfour Beatty operates in South-East Asia through Gammon Construction, in which the Group has a 50% interest.

Gammon is a leading contractor in Hong Kong and Singapore and operates in both the civil engineering and building markets.

Good progress was made on the construction of the new Central Government Complex for Hong Kong – known as the Tamar Development Project (see case study on page 24).

During the year, Gammon boosted its already strong order book with a series of new and high-quality infrastructure and building contracts.

In July, a contract in excess of HK\$1.5bn (£120m) was awarded by Hysan Development Company Limited for the redevelopment of the Hennessy Centre in the Causeway Bay district of Hong Kong. The 36-storey mixed retail and office development is due for completion in 2011.

The Hong Kong Government awarded Gammon a HK\$3.76bn (£300m) contract for the construction of a sewage conveyance system, the largest single civil engineering contract it has ever won.

New work on the Centennial Campus contract from the University of Hong Kong, valued at HK\$2bn (£150m), followed in September 2009.

Early in 2010, further contracts were secured for the HK\$930m (£74m) redevelopment of the Victoria Park swimming pool complex, a HK\$1.34bn (£106m) contract to construct Kennedy Town Station and overrun tunnels for MTR Corporation and a HK\$2.4bn (£195m) contract for the widening of the Tolo and Fanling highways.

Gammon also had a good year in Singapore, though market conditions are expected to be slightly more challenging looking forward.

Gammon anticipates more major infrastructure bids in Hong Kong in 2010, particularly for mass transit and highway projects.

Scatologia per apparecchiatura (LS4)



Area 1  
In 1-4

Scatologia per TV (LS4)





### Middle East

Balfour Beatty operates primarily in Dubai as a building and civil engineering contractor and as a mechanical and electrical engineering (M&E) contractor in Dubai and Abu Dhabi.

The Burj Mall in Dubai, the world's biggest shopping centre, opened during the year.

In Abu Dhabi, Balfour Beatty was responsible for internal and external mechanical and electrical services on the Yas Marina Hotel, which consists of two towers built over the Yas Marina Formula One race track. The project was completed in November 2009 in time for the Grand Prix. Work on the Al Raha Beach hotel in Abu Dhabi is progressing well and there was a strong order book for the M&E business at the end of the year.

Balfour Beatty has been operating in the Middle East for 30 years and continues to take a prudent, long-term view of future prospects with Qatar and Oman also offering a potentially broader range of opportunities.

Additional opportunities to provide an integrated approach for customers, working in combination with PB, are being explored.

### Rail

Balfour Beatty is the world's leading multi-disciplinary fixed rail infrastructure contractor.

It has long-term relationships and major current projects for Network Rail, London Underground, the Olympic Delivery Authority, Deutsche Bahn, AlpTransit, RFI (Italian State Railway), Banverket (Swedish State Railway), the Los Angeles County Metropolitan Transportation Authority, the Ministry of Rail in China, numerous municipalities and many other network owners.

In the UK, good progress was made on the £363m extension and upgrade of the East London Line where Balfour Beatty Rail is working in joint venture. The project was successfully handed over to Transport for London on time in January 2010.

Good progress was made on the £60m contract on the Airdrie-Bathgate line, which forms part of the Edinburgh-Glasgow link.

Volumes were down in the switches and crossings manufacturing business, due to a significant drop in demand from Network Rail, and the business will be looking to export to overseas markets. Signalling Solutions, the joint venture with Alstom, performed satisfactorily.

Balfour Beatty Rail and its recently-acquired track business, Schreck-Mieves, secured several multi-disciplinary contracts in Germany. Balfour Beatty continued to develop its market position in Austria.

In Italy, Balfour Beatty continued its work on the major high-speed rail link programme to connect all the main cities, including the electrification of the link from Turin to Milan and Bologna to Florence, which began operations in December 2009. The business is well-positioned to win further work.

Work on the Metro "Line C" in Rome, one of the largest infrastructure schemes for public transport in Italy, and the trolleybus scheme in Pescara both made good progress.

In Scandinavia, Balfour Beatty boosted its order book to record levels when the Swedish rail administration, Banverket, awarded it a £82m railway maintenance contract for 1,270km in the Västra Götaland region. In Spain, good progress was made on several high-speed line projects and on the Madrid-Levante line.

Balfour Beatty is part of the Transtec Gotthard consortium for the €1bn rail systems installation contract for the 57km Gotthard Base Tunnel in Switzerland, which will be the longest railway tunnel in the world when it opens for commercial services in 2017. The project continues to progress satisfactorily with detailed design and mobilisation taking place during the year.

Balfour Beatty operations in the US rail market are focused on rail services and construction projects. Good progress was made on current projects in Denver and Los Angeles. Balfour Beatty is currently bidding for a major light rail project in Denver and there is potentially a strong pipeline of opportunities, as a result of stimulus expenditure and working in combination with PB, which has particular expertise in this market.

In Malaysia, Balfour Beatty secured a major contract for the rail electrification and power supply systems package for the Ipoh to Padang Besar double tracking rail extension.

In China, Balfour Beatty won a £64m electrification contract for the Xinxiang-Heze-Ranzhou-Rizhao railway for the Ministry of Railways of China, which is due for completion in the summer of 2010. The joint venture established in China to manufacture catenary components is growing rapidly.

In Chile, a £50m contract for two line extensions on the Santiago Metro continues to make good progress. It is hoped that work will be secured in Brazil in 2010.

Balfour Beatty continues to work on smaller projects in Australia and New Zealand.

### Outlook

While current economic conditions create uncertainty in some of our construction services markets, the Group's broad range of customers and geographies provides resilience.

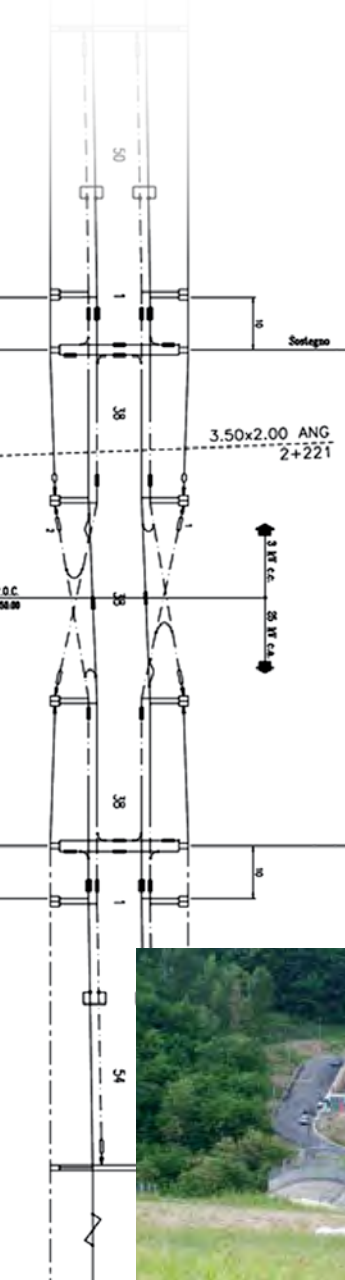
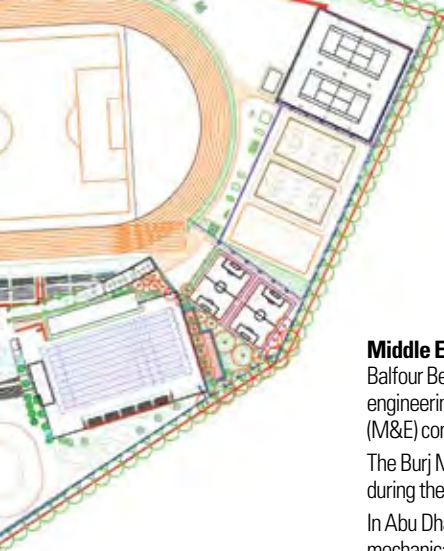
Although we expect civil infrastructure to strengthen, this will be offset by reductions in our building business, so that overall a similar overall level of performance is anticipated in 2010.

A series of actions have been taken to position the business for future opportunities.

In the medium term, there are opportunities in the UK in the waste, power and law and order markets, as well as in rail electrification. Looking further ahead, the nuclear new-build programme in the UK and an upturn in the commercial developer market provide further opportunities.

In the US, there are opportunities in the Federal building market and for greater stimulus spending in US civil infrastructure markets.

The infrastructure market in Hong Kong is especially strong, while other markets and geographies such as Italian high-speed rail and power and rail in the Middle East provide opportunities for growth.



### Italian Rail

In Italy, Balfour Beatty continued its work on the major high-speed rail link programme to connect all the main cities, including the electrification of the link from Turin to Milan and Bologna to Florence, which began operations in December 2009.



## Our businesses

Professional services	Construction services	<b>Support services</b>	Infrastructure investments
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# Support services

Our Support services businesses performed well. Major contract wins with customers including United Utilities and QinetiQ contributed to a strong order book. Balfour Beatty WorkPlace, our total facilities management business, had another strong year.

### What do we do?

Upgrade and maintenance of water, gas and electricity networks

Total facilities management and business services outsourcing

Highways network management, operation and maintenance

Rail renewals

### What's happened?

New AMP5 contracts won in water sector, including £500m contract with United Utilities

New five-year contract with National Grid in US to support its electricity transmission capital investment programme

Strong performance in total facilities management, securing new contracts and expanding range of services for existing customers

Seven-year integrated facilities management contract secured with QinetiQ

Long-term operating and maintenance services won as part of M25 contract

### What's next?

Successful start-up of AMP5 contracts

Opportunities to win contracts to connect alternative energy sources to the electricity transmission network

Closer working with PB to provide integrated solutions to customers in power market

Further growth in outsourcing, with broader range of property-related and business services for customers

Focus on continuous improvement, efficiency and highest levels of quality and safety in highways management and rail renewals

### How we performed

#### Revenue\*

**£1,443m**

2008: £1,548m

#### Order book

**£4.5bn**

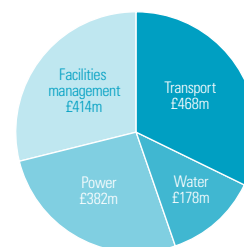
2008: £2.9bn

#### Profit\*\*

**£55m**

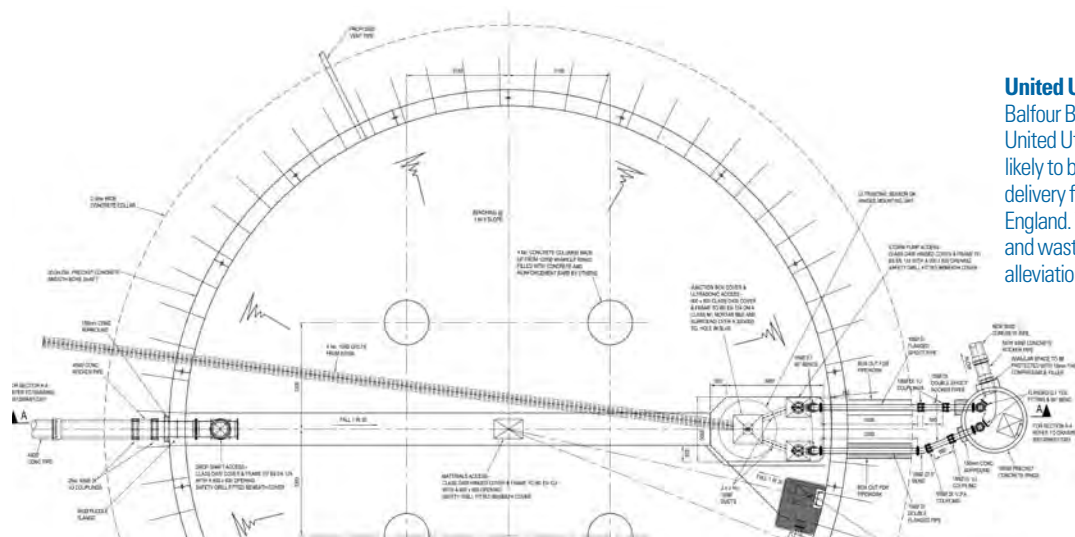
2008: £52m

#### Revenue split



\* Including £140m share of joint ventures and associates (2008: £130m).

\*\* Profit from operations before £3m exceptional credits (2008: £nil) and £2m amortisation of intangible assets (2008: £2m).



### United Utilities

Balfour Beatty secured a five-year contract as part of United Utilities' AMP5 long-cycle contract. The contract, likely to be worth in the region of £500m, covers capital delivery for United Utilities throughout North-West England. The work involves the delivery of clean water and waste water major projects as well as flood alleviation schemes.

## The strategy

Support services work is carried out through long-term contracts, typically of five to seven years' duration and often longer, providing recurring revenue streams.

It is characterised by a mixture of short-term and long-term activities and an understanding of customer needs to ensure that service solutions have a positive and lasting effect.

In addition to working closely with customers to help achieve their goals and to deliver the contract successfully, there is a strong focus on customer care and building long-term relationships that supports expansion of the scope of the contract and contract renewal.

Continuous improvement and innovation is a key focus for management and for customers.

There is a trend towards greater levels of outsourcing and complex, multi-faceted contracts. Balfour Beatty is well-positioned to grow in this market as an integrated service provider, offering total facilities management incorporating business services outsourcing (BSO) as well as energy, property management and business process outsourcing services.

The regulated utilities sector in the UK offers continuity of workload over long durations and the opportunity for increased vertical integration with customers. Balfour Beatty's specialist capabilities, including end-to-end, design to installation skills in electricity transmission, has been exported to overseas markets, including the United States, Australia and New Zealand.

## The marketplace

In the gas, water and electricity sectors there is a continuing need to maintain and upgrade existing assets and to build new assets to support growth in developing economies.

Transmission and distribution network investment is forecast for significant growth to meet energy demands and the need to replace ageing infrastructure.

In addition, there is a requirement to connect alternative energy sources, such as new wind farm capacity, to the electricity transmission network. In the water sector, the new asset management plan period for the utility companies, AMP5, begins in April 2010 and runs to 2015. The latest investment review allows for an investment of £22bn over the next five years, an increase of 7%.

Balfour Beatty won new AMP5 capital programme contracts, totalling some £700m. A number of water frameworks are still to be awarded with others coming to market mid AMP. Additionally, many customers are retaining an element of their programme to be let via competitive bidding.

In the UK gas and electricity sectors, the Group has long-term contracts in place with National Grid. Balfour Beatty's track record with National Grid in the UK was an important factor in winning a contract to support the delivery of National Grid's US electricity transmission capital investment programme in New England (see case study on page 28).

In the facilities management market, there continues to be a shift from simple bundled contracts (a combination of several single services) to more complex integrated contracts that embrace strategic management of the customer's property portfolio and business services.

In some cases, customers may seek to include certain operational aspects and the consequential partial transformation of their business.

This is an important development in government markets, given increasing budgetary constraints and there is an ever greater need to deliver the same outputs for less money.

In highways management, the Highways Agency is increasingly demanding that its contractors are able to supply an integrated, construction, operating and maintenance capability. In the local authorities' roads market, the demand for the provision of integrated infrastructure and operational management is growing and developing.

In rail renewals, Network Rail and London Underground are, as expected, continuing to seek greater efficiencies. In the case of Network Rail, this has resulted in reduced revenues for its suppliers at the beginning of its latest Control Period (CP4).

## Our businesses – Support services

### Financial performance

Profit from operations, before exceptional items and amortisation, rose by 6% to £55m (2008: £52m).

In the utilities markets, overall performance was as expected. In the water sector, there was a fall in revenue on contracts in the last year of the AMP4 cycle, as had been the case in previous AMP cycles. New AMP5 capital programme contracts, totalling some £700m, were won in 2009, with customers including United Utilities and Anglian Water. The contracts commence in April 2010 and efficiency levels will improve through the life of the AMP5 cycle. The overseas power transmission business also produced a good performance.

There was another strong year in facilities management and business support outsourcing, with organic growth and the successful expansion of the range of services for customers. This business is investing in a national operations centre in 2010, which will be focused on increasing the operational efficiencies of existing and future contracts.

There was a good performance in highways management, including the start of operation and maintenance services on the M25 in September 2009, and in rail renewals.

### Operational performance

#### Water and power

United Utilities appointed Balfour Beatty for its AMP5 infrastructure contract, covering capital delivery throughout north-west England as part of United Utilities' AMP5 long-cycle contract. The total value of the five-year contract is likely to be worth in the region of £500m.

Balfour Beatty secured a five-year extension, likely to be worth over £100m in total, to its existing alliance partnership contract with Anglian Water. The extension is part of the @one Alliance £1bn AMP5 programme and covers the whole of Anglian Water's region in the east of England.

Work to support the delivery of National Grid's electricity transmission capital investment programme in the UK, through the Eastern alliance, and in the United States for National Grid, in New England through a joint venture with MJ Electric, progressed well.

Work on electricity transmission projects in Australia and New Zealand continued to make good progress.

In the gas sector, there has been continued year-on-year efficiency improvement on the North West Gas Alliance contract in the UK, where Balfour Beatty is working in a long-term partnership with National Grid on the design, management and construction work required to replace Victorian metallic gas mains with modern pipework systems.

#### Building and outsourced services

Balfour Beatty is a leading total facilities management (TFM) provider with a track record in the public and regulated sectors.

Core service specialisms include building maintenance, cleaning, catering, security, energy management and vehicle fleet management for customers in the public and private sectors.

There were strong performances on major contracts such as the Department for Work and Pensions and Romec, the joint venture in which the Group has a 49% interest, which provides facilities management services for Royal Mail sites within the UK.

At the end of 2009, a £105m contract with QinetiQ, one of the world's leading defence technology and security organisations, was secured to provide integrated facilities management services for the next seven years. The contract will provide a range of property-related support services to QinetiQ's portfolio of 31 sites across the UK. Balfour Beatty will work in partnership with QinetiQ to transform service levels, provide operational efficiencies and deliver cost reductions.

Balfour Beatty expanded its relationship with the Metropolitan Police Authority, winning a new £25m contract for the total facilities management of their command, control and communications buildings, and secured extensions to its work with the BBC, Royal Mail and BT through the Monterey joint venture.

Facilities management is also an integral part of the Group's PPP offer and financial close on Building Schools for the Future schemes at Southwark in 2009, and at Blackburn with Darwen and Bolton in 2010, added to the portfolio of contracts in the education sector.

#### Transport

In highways management, financial close on the design, build, finance and operate contract on the M25 motorway in May 2009 provided a long-term workstream for the business.

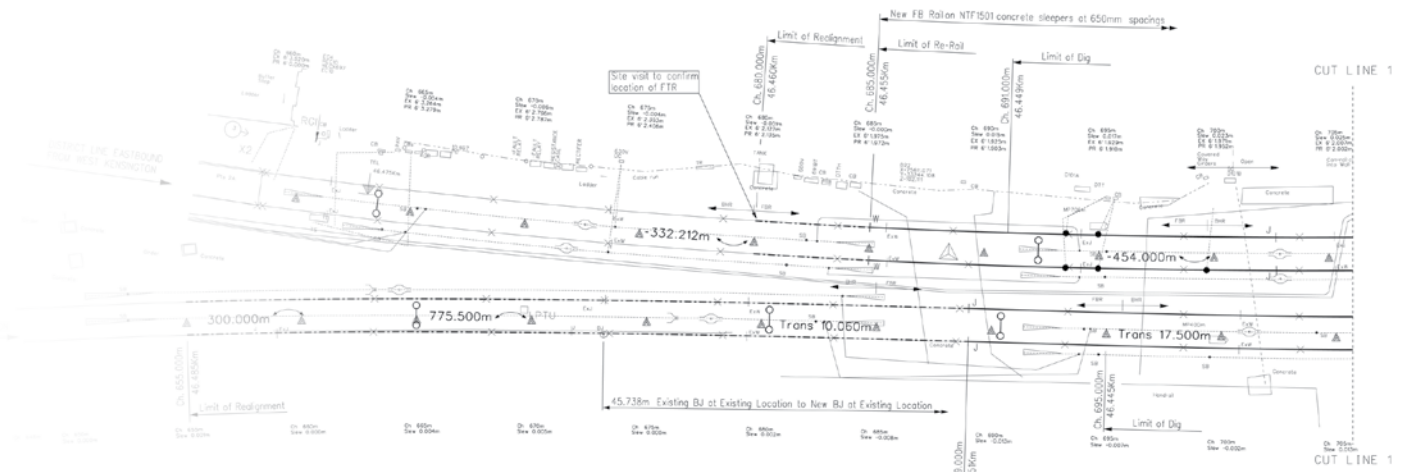
Balfour Beatty, as part of the Connect Plus consortium, is providing operating and maintenance services for the 30-year concession (see case study on page 26).



#### Metropolitan Police

A wide range of support services is provided to the Metropolitan Police Authority. The major elements of the contract include building electrical services, building fabric maintenance, security and hygiene services across an estate of 400 buildings throughout London.





### UK rail renewals

Balfour Beatty is one of the UK's largest track renewal organisations, working on about 25% of Network Rail's network, predominantly in the South-East.



During the year, Balfour Beatty was also reappointed as the service provider for the Highways Agency under the Area 4 contract in Kent and Sussex. The five-year contract for maintenance and improvement services is worth approximately £172m to the joint venture. After the initial five-year period, there is the option to extend the contract for a further two years.

There was also a good performance in Area 2 – Somerset, Avon, Wiltshire, Gloucestershire and Devon – for the Highways Agency and the contract has been extended for a further year to 2012.

In the local authority market, the Group is also a leading provider of highway maintenance and asset management. There was good operational performance on local authority roads in North Yorkshire, Essex, the North-West of Scotland, Royal Windsor & Maidenhead, Wokingham and Westminster.

In rail renewals, as expected, there have been reduced volumes at the outset of Network Rail's latest Control Period (CP4), which runs from April 2009 to March 2014, as Network Rail seeks greater efficiencies.

The business is working hard to standardise its delivery of track renewals to Network Rail in order to help meet these efficiency targets. It is focused on optimising the time spent on track possessions and has made a significant investment in new tamping machines to help achieve its targets. During the year, Balfour Beatty secured an £80m extension to a track renewal contract with Network Rail.

Balfour Beatty, in alliance with London Underground, also secured a two-year, £130m extension to its renewals contract during the year. The contract covers the SSL and BCV lines (Metropolitan, District, Hammersmith & City, Bakerloo, Central and Victoria lines).

The works include deep tube reconditioning, ballasted track renewals, and points and crossings.

As well as meeting stringent delivery and cost targets, there is an increasing premium on continuously improving safety and quality for customers in this area.

### Outlook

Underpinned by a good forward order book, which increased by 55% to £4.5bn during the year, we expect to achieve a similar level of performance in Support services in 2010.

Having secured a number of utilities contracts under AMP5, the focus will be on ensuring those contracts are efficiently mobilised.

In the UK utility sector, there is good potential to export skills into new markets and further vertical integration is expected with asset owners seeking to outsource more of their network maintenance and investment programmes.

There are opportunities to capitalise on significant growth in the alternative energy sector with the requirement to connect those sources of power to the transmission network. There will also be greater opportunities to provide a more integrated offering to customers, following the acquisition of PB which has strong customer relationships in the power market.

In facilities management, there is the potential for increased outsourcing as part of the "more for less" agenda. Procurement trends, accelerated by the economic downturn and the sustainability agenda, continue to provide significant opportunities.

Increasingly, total facilities management contracts cover a broader service scope and the Group has been successful in positioning itself to secure contracts in this area. There is an increasing trend towards business services outsourcing, which the Group is targeting for growth.

In the highways management and rail renewals markets, the focus will be on continuous improvement and customer satisfaction to maintain and, where possible, increase market share.



## Our businesses

Professional services

Construction services

Support services

Infrastructure investments

# Infrastructure investments

There was a good performance in the UK and US. Four PPP schemes reached financial close in the UK, including the M25 DBFO, and there was a full-year contribution from Balfour Beatty Communities.

### What do we do?

Operate a portfolio of long-term PPP concessions in the UK, primarily in the education, health and roads/street lighting sectors

Operate a portfolio of long-term military accommodation PPP concessions in the United States

Operate an education PPP concession, which is under construction in Singapore

Have interests in non-PPP assets at Blackpool and Exeter International Airports and Barking Power Station

### What's happened?

Financial close on four schemes – Fife Hospital, Southwark Schools, M25 DBFO and Carlisle Northern Development Route

Appointed preferred bidder for Blackburn with Darwen and Bolton BSF scheme (reached financial close in January 2010)

First full-year contribution from Balfour Beatty Communities

Good underlying performance from existing concessions

New ventures formed to focus on energy efficiency and renewable energy in US and PPP opportunities in Canada

### What's next?

Significant level of bidding for UK schools projects in 2010

Explore new sectors for UK PPP

Target remaining US military family housing projects, along with unaccompanied military personnel sector

Apply core US PPP (P3) expertise into new areas

15-year contractual arrangements come to an end at Barking Power in September 2010

Opportunities for investment and ownership of infrastructure assets such as offshore electricity transmission

### How we performed

Revenue\*

**£829m**

2008: £553m

Concessions in hand†

UK: 31 US: 18  
Singapore: 1

Profit\*\*

**£42m**

2008: £31m

\* Including £567m share of joint ventures and associates (2008: £393m).

\*\* Profit from operations before £1m exceptional charges (2008: £5m) and £18m amortisation of intangible assets (2008: £9m).

† Including two at preferred bidder status.



### Birmingham Hospital

Balfour Beatty has brought its expertise in funding major Infrastructure investments, together with its construction services and Support services capability, together at the Birmingham New Hospitals scheme. When it is complete in 2012, the hospital will accommodate over 1,300 beds.

## The strategy

In the UK, Balfour Beatty has a leading position in the Public Private Partnership (PPP) market and will continue to pursue bidding opportunities which align with the Group's competitive strengths.

In the US, Balfour Beatty is the market leader in the most developed PPP market – military housing – and is well-positioned to capitalise on the Group's expertise to secure further privatisation projects in areas such as energy, education and social infrastructure (hospitals and court houses).

During the year, a new office was opened in Toronto, Canada to evaluate the demand and opportunities for alternative financing and development solutions for funding and building infrastructure projects and capital improvements.

The skills acquired in PPP will also continue to be applied to the wider, non-PPP infrastructure market, in particular where there are attractive opportunities to take management control and to improve the quality of assets in markets and sectors that are familiar to us. Balfour Beatty is currently pursuing a number of such opportunities.

Balfour Beatty's ability to offer complete vertical integration of its financing, professional services, project management, construction services, and facilities management/maintenance skills, together with the strength of the balance sheet and successful track record of delivering PPP schemes, is a key differentiator for the Group.

## The marketplace

### UK

The medium-term prospects in the UK remain healthy.

In spite of the uncertainty caused by the economic outlook and the 2010 General Election, a steady flow of opportunities is expected to continue, particularly in the education sector.

However, whichever Government is in power, the market for the procurement of public services will inevitably change over time and alternative PPP models and new public procurement models will emerge.

There will be opportunities to bid a number of schools projects in the UK in 2010 under the Building Schools for the Future (BSF) scheme, as well as developing future phases of schools projects where Balfour Beatty has already achieved financial close.

Balfour Beatty is working on a number of schools schemes with local education authorities, under the new Local Educational Partnership (LEP) model, and further local authority work is likely to be delivered using the same model.

In the UK healthcare market, there has been a significant reduction in the number of hospital projects coming to market.

In the UK highways and street lighting sector, Balfour Beatty has a strong track record. The M25 design, build, finance and operate contract reached financial close in 2009 (see case study on page 26).

Social housing, prisons, highways maintenance, fire and rescue and roads projects in Ireland are all potential new sectors for the Group.

The Group has established a track record of adapting to new public procurement models and is confident that this success can be replicated in the future.

## Our businesses – Infrastructure investments

### US military housing

Balfour Beatty is responsible for the development, construction, renovation, operation and management of military accommodation for the US Departments of the Army, Navy and Air Force.



### US

The PPP (P3) market in the US is slowly evolving.

In addition to opportunities arising from the Department of Defense's realignment and growth requirements at existing military housing projects, Balfour Beatty Communities is well-placed to win concessions for more of the remaining military family housing projects, primarily with the US Air Force and overseas, along with the unaccompanied military personnel housing projects.

Balfour Beatty is reviewing potential opportunities for new privatisation projects in the US for student accommodation and other educational facilities; renewable energy, and social infrastructure projects such as hospitals and court houses.

While financial market conditions and the lack of liquidity were contributory factors to the lack of new P3 opportunities coming to the market during 2009, the outlook for the P3 market in both military housing and in other areas remains positive.

### Canada

Balfour Beatty is evaluating the demand in Canada for alternative financing and development solutions for funding and building infrastructure projects and capital improvements.

Balfour Beatty's initial focus in this new PPP market for the Group will be on the social infrastructure sector, including healthcare and justice.

### Singapore

In Singapore, financial close was reached on the first accommodation-based PPP in the country in 2008. Construction of the Institute of Technical Education is due to be completed in 2010. At present, there are few opportunities in South-East Asia for further PPP schemes.

### Germany/Europe

We continue to assess the attractiveness of the market in Germany and other parts of Europe.

### Non-PPP infrastructure

There are potential opportunities for the Group to own and operate further regional airports, together with water assets, power networks and offshore electricity transmission assets, combining the Group's operational knowledge with investment capability to improve the quality of assets.

## Financial performance

The Group's PPP concession and non-PPP investment portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value.

Profit from operations, before exceptional items and amortisation, increased by 35% to £42m (2008: £31m), or by 27% at constant currency.

There was good underlying concession performance in the UK and a full-year contribution from Balfour Beatty Communities in the US.

Acquired in April 2008, Balfour Beatty Communities produces a reliable, long-term profit and cash flow stream from a high-quality portfolio of PPP military housing concessions and continues to perform well.

Four schemes at preferred bidder status reached financial close during 2009: the £170m Fife General Hospital PPP scheme; the £200m Southwark Schools for the Future programme; the £6.2bn PPP project for the design, build, finance and operate (DBFO) contract for the M25 motorway, as part of the Connect Plus consortium; and the £176m Carlisle Northern Development Route PPP concession.

Barking Power, which owns and operates a 1,000MW gas-fired power station in east London, performed strongly. Thirty percent of Barking Power's electricity output is sold in the open market and benefited from favourable rates. Performance in 2010 will be dependent both on the market price for electricity and, the new contractual arrangements that will replace the existing 15-year gas and electricity contracts which come to an end in September 2010.

There was a reduction in passenger numbers at Exeter International Airport and Blackpool International Airport, the impact of which was largely offset by cost savings, an improvement in passenger yields and increases in non-aeronautical revenues.

In total, at 31 December 2009, the Group had committed equity and subordinated debt of £524m across 50 PPP concessions, including two at preferred bidder status.

## Operational performance

### UK

Balfour Beatty's existing concessions performed well in 2009.

In the education sector, Balfour Beatty reached financial close on the Southwark Schools for the Future secondary programme in May. The project involves the delivery of a major capital investment programme over three phases covering 12 schools across the borough.

During 2009, Balfour Beatty Education was formed to draw together the Group's investment, construction and facilities management capabilities to help integrate Balfour Beatty's expertise in this important area.

Financial close for the £450m Blackburn with Darwen and Bolton Councils Building Schools for the Future (BSF) programme was achieved in January 2010. The project involves the delivery of a major capital investment programme over a number of phases comprising the extensive building, remodelling and operation of nine schools in Blackburn with Darwen by 2015 and the building, remodelling and operation of 15 schools, two special educational needs schools and seven pupil referral units in Bolton.

In healthcare, Balfour Beatty reached financial close on the Fife General Hospital and Maternity Services PPP project for NHS Fife in May. Under the 30-year concession, Balfour Beatty will provide a new wing to Victoria Hospital in Kirkcaldy, due for completion in 2011, and maintenance and facilities management.





### Southwark Schools for the Future

This programme involves the delivery of a major investment project over three phases covering 13 sites. (Artist's impressions).



Good progress was made on the £550m Birmingham New Hospitals scheme, the largest community healthcare development outside London, and construction work was completed on Pontefract Hospital.

In the roads sector, Balfour Beatty reached financial close in May, as part of the Connect Plus consortium, on the design, build, finance and operate (DBFO) contract to provide additional capacity and maintain the M25 motorway for the Highways Agency. The M25 motorway DBFO contract is a 30-year concession. During this time Connect Plus will be responsible for widening key sections of the M25 and providing operating and maintenance services and lifecycle replacements on the whole project, which includes strategic road links in and out of London, totalling 250 miles. Balfour Beatty will invest £80m of equity in the project over the initial three years.

In July, financial close was achieved on the £176m Carlisle Northern Development Route PPP concession contract for Cumbria County Council. Under the 30-year concession, Connect CNDR will be responsible for the design and construction of an 8.25km two-way single carriageway road from the M6 Junction 44 to the A595 southwest of Carlisle and the management, operation and ongoing investment in approximately 150km of other existing roads in Cumbria. Financial close on these projects has triggered significant construction work and whole life operation and maintenance services for Balfour Beatty.

In February 2010 we were appointed preferred bidder for the £250m PPP Coventry street lighting contract.

### US

Balfour Beatty is responsible for the development, construction, renovation, operation and management of military accommodation for the US Departments of the Army, Navy and Air Force. Underlying performance at the existing concessions, covering family housing at 44 military bases and one unaccompanied personnel project, was good.

A lack of liquidity in financial markets resulted in a reduction in new transactions during the year. However, early in 2010, the Fort Bliss military housing privatisation project received an additional US\$48m in funding from the Army for an expansion phase covering the development and new construction of an additional 202 town homes. Balfour Beatty will oversee the design, construction, and overall management, maintenance and operational responsibilities for the new housing units, which are expected to be completed in 2012. Expansion at Fort Bliss, and potentially other Army bases, is being driven both by the base realignment and closure (BRAC) legislation and the Grow The Army (GTA) initiative.

Balfour Beatty is preferred bidder for the Florida Atlantic University student accommodation PPP project.

Balfour Beatty Capital Group Inc established new ventures during the year to capitalise on additional areas of opportunity for the Group.

Balfour Beatty Energy Solutions is focused on renewable energy, energy efficiency, utilities management, and sustainability initiatives. The new company will manage energy consumption and spending at the communities currently operated within the existing military housing portfolio, as well as targeting other sectors.

### Singapore

Good progress was made on the new College West campus being constructed for the Institute of Technical Education in Singapore and which is due for completion in 2010. The new facility is being built and managed through the first PPP of its kind in South-East Asia.

### Non-PPP infrastructure investments

Barking Power, which owns and operates a 1,000MW gas-fired power station in east London, performed strongly in 2009.

There was a reduction in passenger numbers at Exeter International Airport and Blackpool International Airport, with an improvement in passenger yields and increases in non-aeronautical revenues.

### Directors' valuation of PPP concessions

Using a single discount rate of 8% nominal post-shareholder tax, the Directors' valuation of the Group's PPP portfolio was £610m as at 31 December 2009 (2008: £556m).

A full explanation of the PPP valuation is on pages 67 to 69.

## Outlook

The long-term nature of our infrastructure investments provides strong visibility of earnings.

There is a healthy pipeline of UK projects, particularly in the education sector, to be bid in 2010.

There are further business development opportunities within the US military accommodation PPP market, primarily with the US Air Force, and management is also focusing on taking that core PPP expertise into new markets in the US such as renewable energy, education and social infrastructure (hospitals, courthouses and student housing).

Given the uncertainty from the renewal of Barking Power's contracts, a modest decline in Balfour Beatty Communities' contracted fees in 2010 and increased bid costs, we anticipate 2010 being significantly behind 2009 in reported profits.



# Making our success SUSTAINABLE

Many businesses are successful for a time. But making success sustainable over time is harder. It's not enough to meet financial and operational criteria: you also need to meet the expectations of many different stakeholders across a range of issues from safety and environmental management to ethical conduct. To ensure our success for years to come, in 2009 we defined a sustainability vision and agreed a plan to achieve it; redefined our core values and set out a new Code of Conduct.

## Our sustainability vision



## Overview

At Balfour Beatty, we believe that investment in the right kinds of sustainability initiatives can add value to both our business and our stakeholders.

It gives us an opportunity to demonstrate leadership and to create real competitive advantage.

Balfour Beatty has the scale and breadth of activities to make a very positive social, environmental and economic impact.

We have always aimed to meet stakeholder expectations by fulfilling our responsibilities to wider society. However, increasingly we are seeing that long-term growth requires us to engage with the challenges and opportunities presented to us by issues such as safety, waste management or ethical conduct, for example.

Changes in the business, and a focus on creating a more unified Balfour Beatty culture, also makes this the right time to build on the work done to date and to thoroughly embed considerations about sustainability at every level of the Group.

A renewed focus on sustainability, facilitated by the vision, better positions Balfour Beatty to manage non-financial risk, to exploit opportunities to increase efficiency, and to improve the Group's reputation as a leader in infrastructure development and management.

Balfour Beatty aims to be a leader in this field, and to play a significant role in helping customers make sustainable choices.

## Leadership and governance for sustainability

The Balfour Beatty Board sets policy and takes responsibility for the Group's non-financial performance (including issues relating to sustainability). The Business Practices Committee, which comprises non-executive Directors, chaired by Mike Donovan, reviews these activities and provides guidance on future activity.

A sustainability vision and a plan to achieve it was launched in October 2009 and Group-wide targets set. Central to the vision is playing our part to align the interests of profitable markets and the needs of communities within environmental limits.

This vision mandates our operating companies to achieve minimum standards on a range of issues by 2020, with a checkpoint at 2012. The vision was the culmination of extensive deliberation which included wide consultation with customers, investors and non-governmental organisations. The details of the vision were shared publicly at an external conference organised by the UK Green Building Council, and are available to download from our corporate website.

Internally, the vision is owned by the sustainability working group, consisting of senior managers with responsibility for Group policy and strategy on key issues. In 2010, the Group also started to define those areas considered most material to the business.

Our 2009 Sustainability report (which will be published in May 2010 and include externally audited data) will reflect both the progress made on our sustainability vision, and the materiality process.

In November 2009, over 250 senior managers attended our regular Management Conference, including representatives from Parsons Brinckerhoff, where key sustainability issues, people management and leadership were discussed.

### Policies

Balfour Beatty has clearly stated policies and principles (available in full at [www.balfourbeatty.com](http://www.balfourbeatty.com)) for key issues such as:

[risk management](#)

[safety and health](#)

[environment](#)

[human rights](#)

[equal opportunities](#)

[sustainability](#)

[ethics and competitive behaviour.](#)

Within this framework, operating companies are required to develop specific policies and practices, relevant to their particular business.

### Risk management

While risk management is a key driver for our sustainability vision, non-financial risk is also reflected in our Group-level risk management process. More detail on this is available on page 70.

# Sustainability

## Group ethics and values

Balfour Beatty has enjoyed considerable growth over the past decade. We believe that having a common set of values that represent the Group will offer clear business benefits and will support the Group through the challenges of future growth.

During 2009, we refined our ethical principles and redefined the Group's core values. We want our shared values of integrity, teamwork, excellence and respect to drive behaviour and prioritisation across our business. These values will be embedded throughout the Group in 2010 as part of an extensive roll-out programme.

A direct product of the values is the new Code of Conduct. This sets out the principles by which employees are expected to translate the values into everyday actions and decisions. A new ethics helpline to allow employees to raise any concerns they might have has also been set up.

Balfour Beatty was one of a number of companies subject to an industry-wide investigation by the Office of Fair Trading (OFT) into tender activities across the construction sector. As a result, one of our subsidiaries, Mansell, was fined £5.2m in respect of such instances which took place before its acquisition by Balfour Beatty.

As we reported last year, in October 2008 we reached a settlement with the Serious Fraud Office (SFO) of a long-running investigation in connection with a project in Egypt. As part of the settlement, we appointed an external monitor to review and report on our anti-corruption policies and processes. The results of the monitoring work will be summarised in our Sustainability report.

### Engaging with our stakeholders

We have identified our key stakeholders and describe in the later paragraphs of this section how we engage with key groups, including:

[employees](#)

[customers](#)

[suppliers](#)

[Government and regulators](#)

[local communities.](#)

We also engage with shareholders and potential investors. We encourage two-way dialogue with these stakeholders to give them a better understanding of our business and to build relationships with them. In 2009, this included an Investor Day and visit to the London Aquatics Centre which we are building for the 2012 Olympics. During the year we had over 140 meetings with investors.

## Our sustainability vision in action

The following three sections of the report show how we are delivering on the key commitments of our sustainability vision, and illustrate how we believe sustainable decisions will help us to grow our business in the future.

### 1. Profitable markets

In order to win new work and retain existing customers, we recognise the need to create and develop deep relationships with our customers and suppliers. Through our leadership of this agenda, we believe we can help create markets where sustainability is consistently the best option. We will begin measuring and tracking key performance indicators for profitable markets in 2010.

#### Engaging with customers

We regularly conduct attitude and opinion surveys to ensure we continue to meet the expectations of our customers. In our investments business customers tell us that our work in healthcare and education has improved. We are pleased that response rates have also increased from 45% in 2008 to 60% in 2009 in healthcare, and from 44% to 70% in education. In the US, our Mission Alignment Process gives customers a pro-active mechanism to feed back on performance. In 2009 the average satisfaction score was 4.5 on a 5 point scale.

As the business has evolved, an increasing number of these customers take advantage of the integrated nature of Balfour Beatty's services, working with several operating companies across one project. In doing this, customers get a more streamlined and efficient service, for example on the M25 project (see case study on page 26), on which we are combining our expertise in Professional services, Construction services, Support services and Infrastructure investments.

Much of our work is carried out for governments and regulated businesses. We have regular contact with national and local government representatives and engage with them as appropriate. In 2010 and beyond, we will continue to focus on sharing best practice customer approaches in our businesses across the Group.

#### Sustainability as a differentiator

Customer demands are changing. With an increased awareness of global challenges such as climate change and the security of energy supply, we are more frequently asked for our views on how the design, build and management of an asset can be more environmentally sustainable.

We work with customers to achieve their sustainability aspirations (see Tamar Complex case study on page 24).

And, we are more frequently asked to demonstrate that we run our business in a way that considers long-term impacts.

We will continue to invest in the appropriate management processes and skills to ensure that we retain a leadership position in this field.

#### Supplier engagement

We work in partnership with those suppliers who adopt our values as their own and seek to align their objectives with those of Balfour Beatty.

We undertake rigorous checks on the financial strength, health and safety and sustainability record of our supply base to ensure that we do not become over-reliant on any particular business.

#### Thought leadership

Parsons Brinckerhoff is involved in modelling climate change scenarios and undertaking research to identify how the UK can deliver its ambitious 80% reduction in carbon emissions by 2050.



## 2. Healthy communities

By protecting and strengthening the communities in which we work, we believe we deliver better projects and services and improve engagement with our businesses. We also value the vital contribution our people make in this area of our sustainability vision.

### 2009 worldwide highlights/indicators

AFR reduced to 0.17

number of fatalities 3 (2008: 8)

number of permanently disabling injuries 3 (2008: 6)

number of whistleblowing cases 42 (2008: 28)

voluntary labour turnover 7.0% (2008: 11% UK only)

total absence rate 2.0% (2008: 2.3%)

equal opportunities – 23% of employees are female (2008: 20%)

UK graduate retention – 90% after one year (2008: 84%) 67% after three years (2008: 60%)

### Ensuring safety and health

Significant attention is paid to safety and health and underpins our licence to operate and our reputation as an employer in local communities. To reflect the importance of this issue, Balfour Beatty launched its Zero Harm programme in 2008. This is designed to eliminate the risk of harm by 2012, to achieve zero deaths, zero injuries to members of the public and zero permanently disabling injuries among all our people and all those who come into contact with our business activities.

Balfour Beatty has made significant inroads to improving safety throughout the business in recent years. The Zero Harm initiative has ignited the imagination of our people and the willingness of all our partners to endorse its aims. It has been adopted throughout all Group operating companies. Each operating company now has in place a 'Journey to Zero Harm' plan and is working to embed this fully across its business.

### Giving our people opportunities

Balfour Beatty aims to recruit internally wherever possible and provide all its employees with varied and interesting careers, sometimes across international boundaries. For example, Sam Bennett joined Balfour Beatty in 2000 and as well as working in the UK, he has undertaken projects in Indonesia, Dubai and is currently in Singapore. He acknowledges that this has given him a better appreciation of cultures around the world and an appreciation of different ways of working, which in turn makes him a more rounded project manager.

Building on this experience, Balfour Beatty has established a talent management programme to offer other employees similar opportunities throughout the business and aims to offer more Group-wide assignments in future.

### Providing the right training

Balfour Beatty WorkPlace experienced a significant rise in the number of attacks on security personnel in 2008.

To combat this rising trend, a robust and well-structured approach to training was developed. This resulted in a 56% reduction in physical interventions and no major accidents or injuries being reported in 2009.

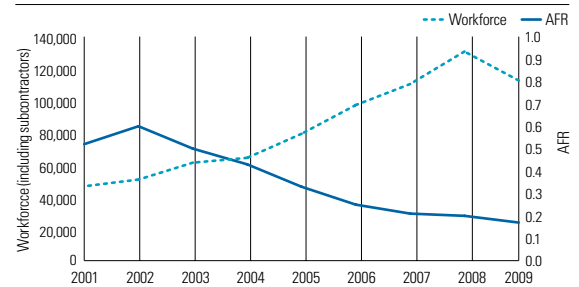
The programme has now been recognised by the industry and Balfour Beatty WorkPlace was a finalist in the industry annual awards for "best in class training" in healthcare environments.

In 2009, the Accident Frequency Rate was reduced from 0.20 to 0.17, the seventh successive year of improvement. This achievement is particularly pleasing in a time of significant growth.

Regrettably there were three fatalities during the year: two fatal accidents on our work sites, and one fatal accident when driving on the public highway. Although this is fewer than in the previous year, any loss of life is one too many and we continue to investigate all incidents and accidents to learn from them and prevent similar incidents in future.

In 2010, a review process entitled Zero-In will be established to assess operating company progress on their journey to achieve Zero Harm by 2012.

### AFR / Workforce (Balfour Beatty Group since 2001)



### Governance of safety and health

Safety and health issues are reviewed by the Board and its executive committee. Balfour Beatty requires all its operating companies to have formal safety management systems. These are subject to external audit.



## Sustainability

### Our people

Across the world we now employ over 50,000 people and we recognise that this brings an enormous responsibility to ensure that they are safe. We also know that our business' success depends on the technical capabilities of our people. To this end, we recognise the importance of attracting and retaining our talented individuals, and investing in training.

Over 12,000 people joined the Group when we acquired PB in October 2009. It significantly increases the size of our business and enhances our international presence.

We want our employees to have opportunities to grow and maximise their potential, irrespective of age, gender, ethnic background, colour, disability, sexual orientation or religion. Given the depth of talent already in the Group, and the increasing desire of high potential individuals to gain experience in other parts of the organisation, we have rolled-out an e-recruit system that allows our staff to view vacancies across the UK, which we plan to extend worldwide in 2010.

We want to be the employer of choice across all our businesses.

In the US, Fortune magazine selected Balfour Beatty Construction as one of the 100 Best Places to Work at the beginning of 2010 and Balfour Beatty Communities' LifeWorks Programme has also been recognised.

In 2010 our priority is the further embedding of the values programme and the launch of a Code of Conduct e-learning module.

### Community engagement

We regard good corporate citizenship as an integral part of our business and seek to work with local communities to create the physical assets which enhance local areas.

Balfour Beatty seeks to engage fully with the communities and individuals directly impacted by our project work. We recognise the legitimate interests that our stakeholders have in the way we do business and the need for us to play a positive role in all the societies and communities in which we operate.

Engaging with local people is an important part of our projects.

This consultation often involves leaflet drops, project websites and community discussions or exhibitions. Most of our larger sites have community relations officers based locally. They ensure that we liaise with key stakeholders on a regular basis and aim to create a sense of community ownership between the projects and local authorities, schools, community organisations, residents and local charity partners.

For example an extensive community relations programme is in place on the M25 project (see page 26) and our construction businesses in the UK and US actively work with local residents when they undertake home refurbishment and replacement.

### Community investment

In the UK, we are members of Business in the Community and have supported their activities throughout the year. Similarly our US businesses firmly believe that employees who are better connected to their communities are intrinsically more passionate about the work they do and programmes are in place to offer them the opportunity to give something back.

Corporate community investment activity in 2009 has included:

Creating Building Better Futures, Balfour Beatty's own charitable trust, was established as part of the centenary celebrations in 2009. By the end of the year, the total raised for disadvantaged young people exceeded our £500k target, thanks to the enormous fundraising effort by employees, with monies then matched and donated by the Company.

Continuing support for Get into Construction, a scheme that we co-founded with The Prince's Trust in 2006. This seeks to encourage disadvantaged young people to consider construction as a career. To date a further 1,000 people have been supported through 82 courses.

Continuing our title sponsorship of the Balfour Beatty London Youth Games. The Games involved 45,000 participants in 60 competitions in 2009, with representation from all 33 London boroughs. The event offers young people the opportunity to compete with teams throughout the capital on an annual basis. We have committed a further £1.0m to the Games up to 2013.

The Group's operating companies run their own charitable and community investment programmes, in addition to being part of the corporate activity described above.

In the US, for instance, the Balfour Beatty Spirit programme, the Heery Foundation launched in spring 2009, and Balfour Beatty Communities Foundation, established in 2008, give employees the chance to give something back to the community. In 2009, Balfour Beatty Communities donated the first \$25,000 instalment of a three-year grant in support of Project HOME, a non-profit organisation dedicated to breaking the cycle of homelessness.



**"We know that when our employees are engaged and excited about what they do, they will in turn serve our customers and partners in the best way possible. With that in mind, we are extremely proud that FORTUNE magazine selected us as one of the "100 Best Places to Work in the US in 2010."**

Robert Van Cleave, Chairman and CEO,  
Balfour Beatty Construction US

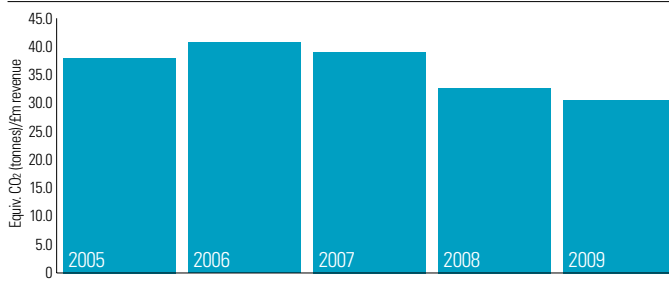


### Building energy-efficient homes

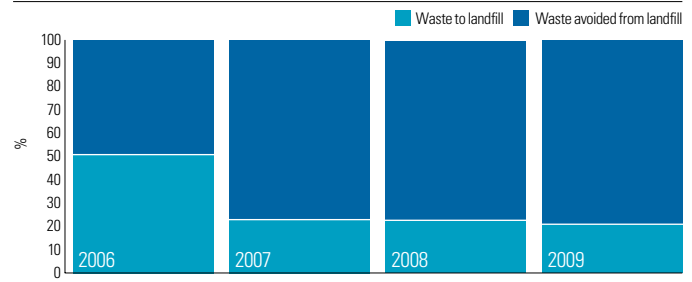
Mansell built the UK's first Level 6 (the highest possible rating) homes under the Code for Sustainable Homes in 2009 in Northampton for Metropolitan Housing Partnership. These highly energy-efficient homes included solar panels, wind turbines and wood pellet boilers plus attractive sunspaces to regulate temperatures.

Rainwater harvesting, a composting system, LED lighting and a sustainable drainage system contribute to the homes' exceptional green credentials.

**Global equivalent CO<sub>2</sub> per £m revenue (excluding air travel and Dutco Balfour Beatty)**



**Global waste year-on-year analysis (excluding Dutco Balfour Beatty)**



## Environmental limits

Our core business is about creating and managing physical assets for individuals and communities – but we need to do this within environmental limits. The ways in which we do this are explored below.

2009 highlights/indicators

carbon emissions reduced by 19% since 2005

waste – 79% of waste recycled

number of environment fines – 7 in 2009 (2008: 5)

### Energy and carbon

In 2009, our CO<sub>2</sub> emissions relative to revenue from our vehicles, plant and buildings decreased by 19% compared to 2005. Data from our US construction business is included for the first time in 2009, but data from Dutco Balfour Beatty in Dubai was unavailable when compiling the chart. We have made considerable progress in preparations for the Carbon Reduction Commitment, an energy efficiency requirement being introduced in the UK in 2010. In addition to this, we see significant opportunity in the infrastructure developments required to facilitate the transition to a lower carbon economy, given our capability to construct and manage renewables and nuclear energy generation sites.

### Waste

Waste is increasingly considered a key issue for our business, given rising costs of waste disposal to landfill, and the growing infrastructure market in this area is predicted to reach £8bn by 2015 in the UK alone. We continue to raise awareness of the waste issue throughout our business and we have been encouraged by the support from our waste contractors in seeking to reduce the level of waste produced.

In 2009, our global operations generated some 3.9m tonnes of waste (3.2m in 2008) reflecting data being reported by our US construction business for the first time and increased activity in Hong Kong. Data from Dutco Balfour Beatty was unavailable when compiling the chart. Some 79% of the waste we generated in 2009 was recycled (49% in 2006). We have established a global target to reduce our waste to landfill by 50% per £m revenue by 2012 against a 2010 baseline.

### Materials sourcing and usage

We aim to achieve a minimum of 25% of recycled content of major material in new buildings by 2012 where we specify the material. We actively deploy our expertise to encourage customers to consider recycled content where we are not responsible for the specification of materials.

### Ecology

The built environment can have a significant impact on the ecology of our natural environment. Some of our operations work alongside sensitive ecological areas, such as nature reserves, conservation sites and sites of special scientific interest. Maintaining a rich diversity of species and habitats is increasingly important to our customers and the communities affected by our work. Through our operations we have the opportunity to reduce our impacts on ecological resources and enhance them through better design, development and management of our projects.

Seven minor environmental incidents across the Group resulted in fines amounting to £15,600 during 2009. These included noise infringement and incorrect labelling of hazardous waste.

### Water consumption

While not currently a significant issue, we believe water will become increasingly important in future years in terms of scarcity and ultimately cost to our business. We continue to measure our consumption of water and assess opportunities to reduce consumption and provide water efficiency measures across our sites. We aim to reduce our water consumption by 10% by 2012.

### Environmental governance

Strategic environmental issues are reviewed by the sustainability working group, chaired by a Group Managing Director. An environmental managers' forum reviews key topics and shares best practice between operating companies. Environmental performance is audited regularly and Group-wide statistics are collated to measure the Group's major environmental impacts.

In 2010 we aim to set a global baseline for greenhouse gas emissions, waste, water, major materials usage and continue to work towards the 2012 goals defined in our sustainability vision.

## Board of Directors

### Chairman and Executive Directors



**Steve Marshall**

**Non-executive Chairman**

Age 53. A Fellow of the Chartered Institute of Management Accountants. Appointed a Director in 2005 and Chairman in May 2008. Currently also chairman of Delta plc. He is also a former chairman at both QMH Limited (formerly known as Queens' Moat Houses plc) and Torex Retail plc. He was chief executive of Thorn plc and of Railtrack Group plc, having also served as group finance director at each company. His earlier career included a wide range of corporate and operational roles at Grand Metropolitan plc, Black & Decker and BOC.



**Ian Tyler**

**Chief Executive**

Age 49. A chartered accountant. A Director since 1999, he became Chief Executive in January 2005, having been Chief Operating Officer since 2002 and prior to that, Finance Director. He joined Balfour Beatty in 1996 from the Hanson Group where he was finance director of ARC Ltd, one of its principal subsidiaries. He is currently a non-executive director of VT Group plc, and president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless.



**Anthony Rabin**

**Deputy Chief Executive**

Age 54. A chartered accountant and a barrister. A Director since 2002, he became Deputy Chief Executive in March 2008, prior to which he was Finance Director. He is responsible for the Group's worldwide infrastructure investments business, having previously been managing director of Balfour Beatty Capital. Prior to joining the Group in 1995, he was a partner at Coopers & Lybrand and before that, a senior assistant director at Morgan Grenfell.

### Non-executive Directors



**Mike Donovan**

**Non-executive Director**

Age 56. Appointed a Director in 2006. A mechanical engineering graduate, he was most recently chief operating officer of Marconi plc from 2001 to 2005. Prior to that, he was chief executive officer of Marconi Systems and was previously responsible for managing major divisions of British Aerospace, Vickers and the Rover Group.



**Iain Ferguson CBE**

**Non-executive Director**

Age 54. Appointed a Director on 1 January 2010. He was most recently chief executive of Tate & Lyle PLC, a world-leading renewable food and industrial ingredients company. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever PLC in a succession of roles culminating in his appointment as senior vice president, corporate development. He is also a non-executive director of Greggs plc and is chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. He was formerly a non-executive director of Sygen International plc.



**Hubertus Krossa**

**Non-executive Director**

Age 62. Appointed a Director in September 2008. Until 2008, he was chief executive officer of KION Group GmbH, a leading international material handling equipment manufacturer. Prior to that, he spent seven years on the main board of Linde AG, the worldwide producer and supplier of industrial and medical gases. He was previously a member of the European management board of Whirlpool Europe and was also chairman of its German operating company, and has previously held non-executive directorships in the UK for Wassall plc and Thorn Lighting Group. He is currently chairman of the supervisory boards of Eckelmann AG and Bauknecht Hausgeraete GmbH.



**Andrew McNaughton**  
**Chief Operating Officer**

Age 46. A chartered civil engineer and Fellow of the Institution of Civil Engineers. Appointed to the Board as Chief Operating Officer on 1 January 2009. He joined Balfour Beatty in 1997, having spent 12 years with the Kier Group, and held the position of managing director of Balfour Beatty Civil Engineering from 2004 to April 2007, when he became Group managing director with responsibility for civil engineering in the UK and the Group's interests in the Middle East. He is a Liveryman in the Worshipful Company of Engineers.



**Duncan Magrath**  
**Finance Director**

Age 45. A chartered accountant and an engineering graduate. Appointed to the Board as Finance Director in March 2008. He joined Balfour Beatty in 2006 as deputy finance director from Exel plc, where he was director of investor relations and financial strategy, following a number of senior financial roles in the UK and US.



**Peter Zinkin**  
**Planning and Development Director**

Age 56. Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function. He is responsible for the Group's merger, acquisition and divestment activities as well as the development of Group strategy. Previously, he worked at the London Business School and UMIST.



**Graham Roberts**  
**Non-executive Director**

Age 51. A Fellow of the Institute of Chartered Accountants. Appointed a Director on 1 January 2009. He is finance director of The British Land Company PLC, one of the UK's largest quoted property companies. Prior to joining British Land in 2002, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors.



**Gordon Sage**  
**Non-executive Director**

Age 62. Appointed a Director in 2003. A chemical engineer, he is a non-executive director of BlackRock World Mining Trust plc. Between 1970 and 2001 he held a series of increasingly senior positions in Rio Tinto plc, latterly as executive director responsible for its industrial minerals and diamonds businesses.



**Robert Walvis**  
**Non-executive Director**

Age 63. Appointed a Director in 2001. A chemical engineer, he was previously with the Royal Dutch Shell Group, latterly as chairman of the Global Corporate Centre. He is a non-executive director of Associated British Ports Holdings Limited and Johnson Matthey plc, and chairman of the supervisory board of Allianz Nederland Groep NV. He is the senior independent Director.

**Board Committee membership is as follows:**

**Audit Committee**

Graham Roberts (Chair)  
Mike Donovan  
Hubertus Krossa  
Gordon Sage  
Robert Walvis

**Business Practices Committee**

Mike Donovan (Chair)  
Iain Ferguson  
Hubertus Krossa  
Steve Marshall  
Graham Roberts

**Nomination Committee**

Steve Marshall (Chair)  
Mike Donovan  
Graham Roberts  
Gordon Sage  
Ian Tyler  
Robert Walvis

**Remuneration Committee**

Robert Walvis (Chair)  
Iain Ferguson  
Hubertus Krossa  
Steve Marshall  
Gordon Sage



## Financial review

**The Financial review covers the topics shown below. Additional information can be found elsewhere as indicated.**

Topic	Additional information
Group trading performance	See pages 37 to 55 for more detailed comments on performance by segment.
Group cash flow performance	More detailed analysis on the movements in net cash are shown in Note 35.
Group balance sheet and capital structure	A key part of the Group's balance sheet is the investment in PPP concessions, which is dealt with in detail on pages 67 to 69.
Treasury risk management	The Financial review largely focuses on treasury related risk matters. A broader description of the Group's principal risks and risk management is included on pages 70 to 73.
Going concern	To appreciate the prospects for the Group as a whole, the complete Annual report and accounts 2009 needs to be read, with particular reference to Notes 20 and 23.

The accounting policies used by the Group are outlined in Note 1 to the financial statements. The most significant changes to the accounts presentation have been firstly, the change to the segments as a result of the acquisition of Parsons Brinckerhoff which coincided with the adoption of IFRS 8 Operating Segments and secondly the early adoption of IFRS 3 Business Combinations with the principal effect being the expensing of acquisition costs which have been included in exceptional items.

### Group trading performance

Results for the year	2009	2008	Percentage increase
<b>Revenue including joint ventures and associates</b>	<b>£10,339m</b>	£9,486m	<b>+9%</b>
<b>Group revenue</b>	<b>£8,954m</b>	£8,261m	<b>+8%</b>
<b>Profit from operations</b>			
– before exceptional items and amortisation	<b>£282m</b>	£230m	<b>+23%</b>
– after exceptional items and amortisation	<b>£297m</b>	£251m	<b>+18%</b>
<b>Pre-tax profit</b>			
– before exceptional items and amortisation	<b>£267m</b>	£249m	<b>+7%</b>
– after exceptional items and amortisation	<b>£267m</b>	£270m	<b>(1)%</b>
<b>Earnings per share<sup>†</sup></b>			
– adjusted*	<b>34.7p</b>	34.7p	–
– basic	<b>37.4p</b>	37.4p	–

\* Before exceptional items and amortisation of intangible assets.

<sup>†</sup> Per share data has been restated for the bonus element of the 2009 rights issue.

Whilst some stability returned to markets in 2009 following the extraordinary events of 2008, the year started with further weakening of sterling which hit a low in March of US\$1.38, almost exactly 12 months after it had peaked at US\$2.03, and real concerns about the depth and length of the recession. A steady improvement from the March low point in equity markets reflected growing confidence that the worst was over, however the latter part of the year saw concerns emerging regarding UK government deficits and concerns over the ability of the US Government to drive through its spending plans.

Whilst we have not been immune to the effects of the recession, and despite unfortunately having to reduce headcount in a number of areas to offset reductions in activity, we have continued to fare comparatively well. Our increasingly diversified model has provided a degree of resilience against the worst effects of the economic turmoil.

2009 was another year of good operational performance across the Group. Revenue in 2009, including the Group's share of the revenue of joint ventures and associates, was up 9% to £10,339m (2008: £9,486m), or 3% at constant currency, including the benefit of acquisitions. Profit from operations before exceptional items and amortisation of intangible assets increased by 23% from £230m to £282m, or 14% at constant currency.

Total pension charges before exceptional items of £86m (2008: £68m) have been made to the income statement in accordance with IAS 19, including the net investment return which declined from income of £5m in 2008 to a net cost of £15m in 2009. The reduction in income was due to a £25m fall in the expected return on plan assets, following the fall in value of the assets in 2008, which was only partially offset by a reduction in the interest cost.

Investment income, net of finance costs and before exceptional items, reduced from £19m in 2008 to a net interest cost of £15m in 2009 principally due to the reduction in the net return on pension scheme assets and liabilities noted above. The Directors expect a further increase in the net interest cost in 2010, as a result of an increased pension net interest cost of approximately £8m.

Pre-tax profit before exceptional items and amortisation increased from £249m to £267m (7%).

### Exceptional items

Exceptional items of £46m (2008: £33m) after tax were credited to profit for the year. The most significant items were a £100m gain from the reduction in past service pension liabilities, £16m of acquisition-related expenses mainly due to the acquisition of Parsons Brinckerhoff, £12m of costs relating to post-acquisition integration and £15m of costs associated with currency option contracts entered into to limit the cash downside from net investment hedging. Further details are given in Note 8.

### Taxation

The Group's effective tax rate in 2009 was 37.5% (2008: 38.1%) of profit before taxation, exceptional items and amortisation of intangible assets, excluding the Group's share of the results of joint ventures and associates. Eliminating the finance cost of the preference shares which does not attract tax relief, the Group's effective tax rate would be 35.3% (2008: 35.7%). The benefit of lower UK tax rates has been offset by an increase in the proportion of profits from higher tax countries, notably the US.

### Earnings per share

Adjusted earnings per ordinary share after adjustment for the bonus element of the rights issue are unchanged at 34.7p (2008: 34.7p), due principally to the impact of the rights issue in October 2009.

### Cash flow performance

Cash flow performance in the year was again strong with cash generated from operations of £294m (2008: £297m) compared with profit from operations of £297m (2008: £251m).

As anticipated, the maturing of balance sheet hedges and the premium paid to mitigate downside risk on these hedges for the extreme fluctuations in currency mentioned above resulted in a net cash outflow of £57m on settlement, or £53m post-tax.

The acquisition of Parsons Brinckerhoff was substantially funded through a rights issue, which raised a net £352m.

Segment	Acquisition	Total consideration £m
Construction services	RT Dooley	28
Professional services	Parsons Brinckerhoff	375
Construction services	SpawMaxwell	15
Construction services	Strata Construction	10
	<b>Total</b>	<b>428</b>

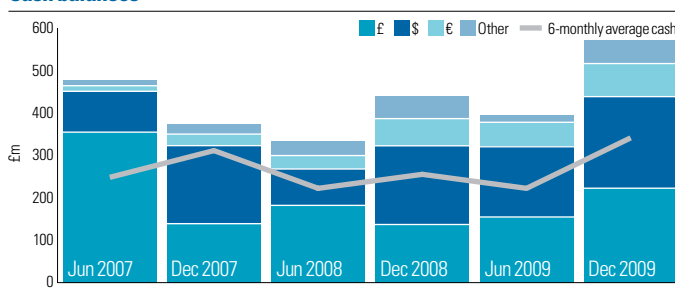
The Company agreed in 2008 with the trustees of the Balfour Beatty Pension Fund ("BBPF") to make deficit payments of £24m per year until April 2013. In 2009 the Company agreed to make additional deficit payments to the BBPF of £1m per month from April 2010 until the results of the 31 March 2010 actuarial valuation have been agreed.

The Company continues to look at ways of mitigating the impact of the pension scheme and launched in 2009 an exercise offering enhanced transfer values along with early retirement offers to deferred pensioners. The final cost of these exercises will depend on the take-up rates, but in anticipation of acceptances from members, the Company contributed an extra £10m into the BBPF in 2009.

As a result, and including other pension schemes, deficit payments totalled £35m in 2009 (2008: £38m).

Average cash in the second half of the year was £342m, although the Group's net cash at 31 December 2009 was significantly in excess of that at £572m (2008: £440m) before taking into account the consolidation of £248m (2008: £143m) of non-recourse net debt held in wholly-owned PPP project companies.

### Cash balances



### Balance sheet and capital structure

#### Goodwill and intangibles

As noted above, total consideration on acquisitions in the year amounted to £428m. Goodwill arising on these acquisitions amounted to £206m, and a further £139m of intangible assets were recognised in respect of £26m of customer contracts, £73m of customer relationships, £37m of brand names and £3m of software. As a result, and after exchange adjustments, the goodwill on the Group's balance sheet at 31 December 2009 increased to £1,131m (2008: £975m) and other intangible assets to £298m (2008: £223m).

Impairment reviews have been carried out, and none of the goodwill has been impaired. Details of the calculations and assumptions are shown in Note 12.

Charges for the amortisation of other intangible assets increased to £48m (2008: £27m) due to the impact of acquisitions, with a related tax credit of £17m (2008: £7m).

#### Infrastructure investments

During 2009, the Group invested £62m (2008: £35m) in a combination of equity and shareholder loans to PPP project companies.

At 31 December 2009, the Group had invested a total of £364m in equity and subordinated loans to its 50 continuing PPP project companies (including two projects at preferred bidder status) and had committed to provide a further £160m from 2010 onwards. The Blackburn with Darwen and Bolton BSF project reached financial close in January 2010.

At 31 December 2009, the Group's share of non-recourse net debt within Balfour Beatty Capital's continuing PPP project companies amounted to £1,775m (2008: £1,511m), comprising £1,527m (2008: £1,368m) in relation to joint ventures and associates as disclosed in Note 15.2 and £248m (2008: £143m) on the Group balance sheet in relation to wholly-owned project companies as disclosed in Note 23.1.

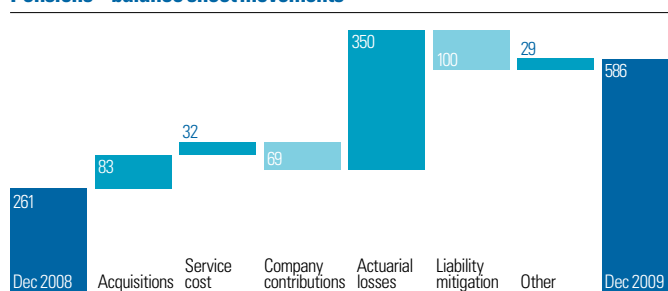
The Group's share of the results of the military housing PPP concessions of Balfour Beatty Communities is contractually limited to a maximum pre-agreed level of return on funds invested, which is shown under the equity method of accounting within joint ventures and associates. The Group's investment in those concessions is recorded on the balance sheet at the initial equity investment plus the value of the Group's accrued preferred return. The fee income which is the bulk of the return earned by the Group from these concessions is included within Group operating profit.

The Directors have carried out a valuation of the Group's PPP concessions, including the military housing PPP concessions of Balfour Beatty Communities, and this is set out on pages 67 to 69.

### Pensions

The Group's balance sheet includes aggregate deficits of £586m (2008: £261m) for the Group's pension funds based on the assumptions set out in Note 25. The Group recorded net actuarial losses for 2009 on those funds totalling £350m (2008: £62m), with the effects of the lower discount rates applied to the funds' liabilities only partly countered by better than expected returns on the assets held by the funds. During the year, the Group wrote to certain groups of in-service defined benefit members of the Balfour Beatty Pension Fund informing them of measures to limit their pensionable pay so that any salary increase from 1 January 2011 will not increase their defined benefit pensions. This resulted in a reduction in retirement benefit obligations of £114m, of which £100m was shown as a pre-tax exceptional credit, and £14m was included as a change in actuarial assumptions and therefore was reflected through the statement of comprehensive income.

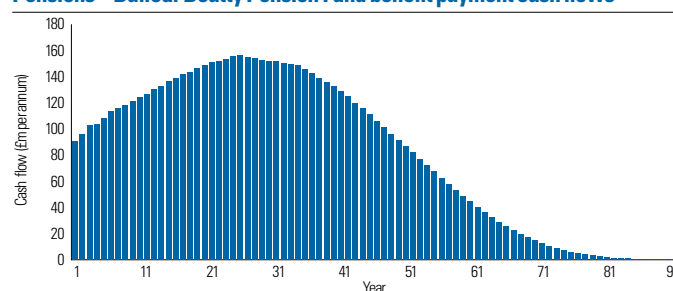
### Pensions – balance sheet movements



The last formal actuarial valuation of the Balfour Beatty Pension Fund was carried out at 31 March 2007 and showed a funding position of 96%. A formal actuarial valuation of the Railways Pension Scheme was carried out at 31 December 2007 and showed a funding position of 101%. The last actuarial valuation of the Parsons Brinckerhoff scheme was carried out at 31 March 2008 and showed a 71% funding level.

Note 25 includes a sensitivity analysis which identifies the impact on the income statement and the balance sheet from changes in the assumptions. The future projected cash flows for benefit payments from the BBPF are shown below.

### Pensions – Balfour Beatty Pension Fund benefit payment cash flows



### Equity raising

In October 2009, the Company successfully completed a fully underwritten three for seven rights issue at a subscription price of 180p per share to substantially fund the acquisition of Parsons Brinckerhoff. 205.5m shares were issued, raising £352m after issue costs and expenses of £18m. This resulted in the total number of ordinary shares in issue at the end of the year being 685m and the average number of shares in the year being up 9% at 571m (2008: 525m adjusted).

### Dividend policy

Balfour Beatty aims over time to grow the dividend broadly in line with the growth in earnings, taking into account the investment needs of the business. The Board has recommended a final dividend of 7.2p in respect of 2009, giving a full-year dividend of 12.0p (2008: 11.1p adjusted), up 8% on last year. Underlying dividend cover for 2009 is 2.9, slightly lower than the cover of 3.1 last year but the Board believes that this is reasonable given the strength of the Group's cash reserves and future prospects.

## Financial review

### Treasury risk management

The Group's financial instruments, other than derivatives, comprise cash and liquid investments, and borrowings. The Group enters into derivatives transactions (principally forward foreign currency contracts and interest rate swaps) to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

During 2009 the Group entered into a number of commodity hedge contracts to manage some of the Group's exposure to the price of fuel. The value of fuel covered by those hedges amounted to £3m.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken. Compliance with policy is monitored through regular reporting and internal audits. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the Group's financial risk factors and financial instruments are shown in Note 20.

### Finance and liquidity risk

The Group's policy remains to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

Balfour Beatty's cash and liquid investments comprise cash, term deposits and the use of money market liquidity funds.

Additionally, the Group has a series of bilateral facilities which total £561m, the majority of which mature in 2012 and the first half of 2013. The purpose of these facilities is to provide liquidity from a group of core relationship banks to support Balfour Beatty in its current and future activities. As a result of the acquisition a number of facilities held by Parsons Brinckerhoff were cancelled, and replaced by new facilities at Group level.

### Committed bank facilities (excluding PPP facilities)



### Treasury counterparty risk

Treasury counterparty risk is monitored regularly and mitigated by limiting deposits in value and duration to reflect the credit rating of the counterparty.

### Contract bonds

In the normal course of its business, the Group arranges for financial institutions to provide customers with guarantees in connection with its contracting activities (commonly referred to as "bonds"). Such bonds provide a customer with a level of financial protection in the event that a contractor fails to meet its commitments under the terms of a contract. In return for issuing the bonds, the financial institutions receive a fee and a counter-indemnity from Balfour Beatty plc. As at 31 December 2009, contract bonds in issue by financial institutions covered £3.1bn (2008: £3.7bn) of contract commitments of the Group.

### Currency risk

The following exchange rates were applied in the preparation of the accounts:

#### Average rates

	2009	2008	Change
£ 1 buys			
US\$	1.56	1.86	(16)%
EUR	1.12	1.26	(11)%

#### Closing rates

	2009	2008	Change
£ 1 buys			
US\$	1.62	1.46	11%
EUR	1.13	1.05	8%

The Group's businesses manage their known foreign currency transactional exposures by taking out forward foreign exchange contracts through Group Treasury. The Group has decided not to adopt hedge accounting for its foreign currency transactional exposures except where the exposure is in excess of pre-set materiality limits in which case a decision is made as to whether to hedge account or not. As a result, there was a charge to profit of £1m (2008: £3m) which would otherwise have been charged directly to equity.

The Group also faces currency exposures on the translation into sterling of the profits of overseas subsidiaries and associates, primarily in the US, Europe and Australia, and on its overseas trading transactions. Balfour Beatty does not hedge these profit translation exposures as these are an accounting rather than cash exposure. However, the effect of volatile short-term currency movements on profits is reduced because the Group accounts for currency profits using average exchange rates.

In addition, the Group is exposed to currency exposures from translation of the net assets of overseas subsidiaries and associates. Balance sheet translation exposure can be managed by matching net assets denominated in currencies other than sterling by way of forward foreign exchange contracts. The hedging policy is reviewed periodically to consider the potential cash effect of the hedging programme against the potential effect that the movement in currencies can have on the Group's net assets, and the level of hedging is adjusted accordingly. Given the growth in the Group's net assets and the additional focus on cash due to the economic climate, the level of hedging in 2008 was reduced. As at 31 December 2008, approximately 45% of the US dollar denominated net assets were hedged and this reduction was continued in 2009 so that by the end of 2009 the Group's net assets were unhedged. This unhedged position is kept under review bearing in mind the size of the Group's overseas assets and the potential impact of exchange rates on the Group's net asset position.

### Interest rate risk

The Group has no significant borrowings (excluding PPP non-recourse term loans). Group policy is for PPP concessions to use interest rate swaps to swap floating rate borrowings to fixed rates to mitigate the risk of changing interest rates on the project cash flows. The Group's deposits (excluding PPP guaranteed investment contracts) earn interest at variable rates and are short-term in nature.

### Going concern

The Directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009. In reviewing the future prospects of the Group the following factors are relevant:

- the Group has a strong order backlog, and good forward visibility;
- there continues to be underlying demand in infrastructure markets in the countries in which the Group operates;
- the Group has an increasingly diversified business model that gives resilience to the business; and
- the Group had £572m net cash at 31 December 2009, in addition to which it had undrawn committed facilities in excess of £550m, of which £360m continue until the fourth quarter of 2012.

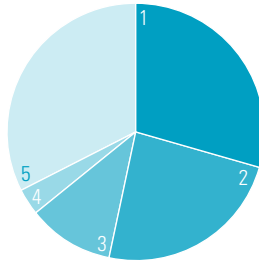
Based on the above, and having made appropriate enquiries and reviewed medium-term cash forecasts, the Directors consider it reasonable to assume that the Group and the Company have adequate resources to continue for the foreseeable future and, for this reason, have continued to adopt the going concern basis in preparing the accounts.

Duncan Magrath  
Finance Director

## Directors' valuation of PPP concessions

### Our portfolio Total equity committed by sector\*

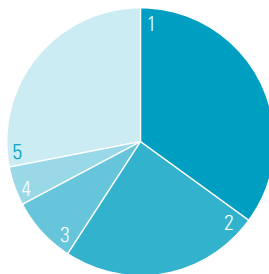
	2009	2008
1 Connect: 9 projects	<b>£154m</b>	£149m
2 Consort: 9 projects	<b>£125m</b>	£123m
3 Transform: 10 projects	<b>£58m</b>	£54m
4 Other: 4 projects	<b>£17m</b>	£17m
5 BB Communities: 18 projects	<b>£170m</b>	£173m
	<b>£524m</b>	£516m



\*Details of the equity committed and cash invested by project are included in Note 36.

### Portfolio valuation: December 2009 Value by sector

	2009	2008
1 Connect (roads)	<b>£214m</b>	£158m
2 Consort (healthcare)	<b>£148m</b>	£135m
3 Transform (schools)	<b>£49m</b>	£42m
4 Other	<b>£28m</b>	£25m
5 BB Communities	<b>£171m</b>	£196m
	<b>£610m</b>	£556m

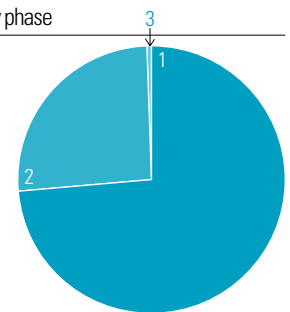


### Our portfolio Cash invested by December\*

	2009	2008
1 Connect: 9 projects	<b>£84m</b>	£59m
2 Consort: 9 projects	<b>£89m</b>	£62m
3 Transform: 10 projects	<b>£34m</b>	£26m
4 Other: 4 projects	<b>£10m</b>	£9m
5 RR Communities: 18 projects	<b>£147m</b>	£146m

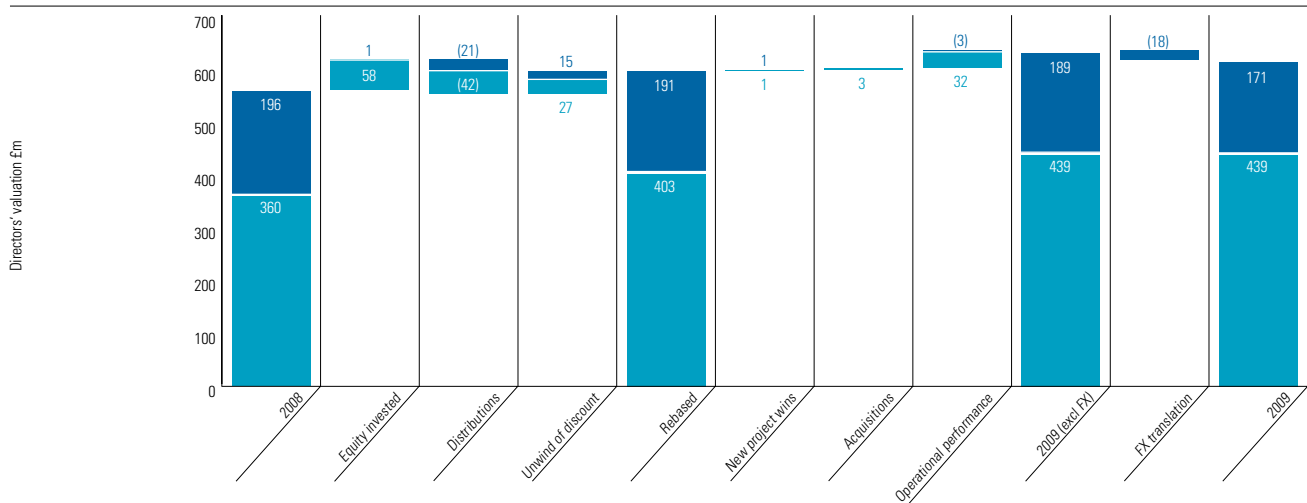
### Portfolio valuation: December 2009 Value by phase

	2009	2008
1 Operations	<b>£450m</b>	£490m
2 Construction	<b>£158m</b>	£26m
3 Preferred bidder	<b>£2m</b>	£40m
	<b>£610m</b>	£556m



### Movement in value 2008/2009 £m

	2008	Equity invested	Distributions	Unwind of discount	Rebased	New project wins	Acquisitions	Operational performance gains	2009 (excl FX)	FX translation	2009	Growth (excl FX)
Balfour Beatty Capital	360	58	(42)	27	<b>403</b>	1	3	32	<b>439</b>	—	<b>439</b>	8.9%
Balfour Beatty Communities	196	1	(21)	15	<b>191</b>	1	—	(3)	<b>189</b>	(18)	<b>171</b>	(1.0)%
<b>Total</b>	<b>556</b>	<b>59</b>	<b>(63)</b>	<b>42</b>	<b>594</b>	<b>2</b>	<b>3</b>	<b>29</b>	<b>628</b>	<b>(18)</b>	<b>610</b>	5.7%





## Directors' valuation of PPP concessions

### Introduction

Balfour Beatty's PPP concession portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value. At 31 December 2009, Balfour Beatty had total committed equity and subordinated debt of £524m across 50 projects (31 UK, 18 US and 1 Singapore) two of which were at preferred bidder stage. At that date, £364m had been invested and £160m was due over the next six years.

In order to provide an indicator of value, Balfour Beatty publishes its own valuation benchmark for the Group's PPP investments, based on discounting expected future cash flows ("DCF valuation") but without taking into account potential refinancing gains. The valuations do not include Balfour Beatty's non-PPP infrastructure investments in Barking Power, Exeter International Airport and Blackpool International Airport.

### Directors' valuation

At 31 December 2009, the Directors' valuation of Balfour Beatty's investment portfolio stood at £610m, at a post-tax nominal discount rate of 8.0% (2008 £556m). The movement in value arises through shareholder cash inflows and outflows during the year, underlying growth in the portfolio arising from the unwinding of the discount rate from year to year, project wins, acquisitions, operational performance gains and foreign exchange translation movements.

The Directors' valuation incorporates all anticipated future distributions to equity and repayment thereof, interest and principal payments on shareholder subordinated debt and fees payable to shareholders from projects that have either reached financial close or are at the preferred bidder stage. The DCF valuation does not take into account profits made by Balfour Beatty Group companies that perform the construction, maintenance or facilities management services associated with the projects other than fees directly arising from the Group's investment in US military housing.

### Operational performance gains

Operational performance gains arise principally from operational improvements identified leading to a revision of the future cost and/or revenue forecasts, as well as other inflows and outflows of cash. In 2009 operational performance gains arose principally from changes between preferred bidder and financial close in forecast project cash flows and tax assumption changes. These changes relate to the timing of equity injections and distributions of the four preferred bidder projects. Such changes were reflected in the financial close models. Operational performance gains also arose as a result of changes to the treatment of tax by concessions following agreement with HMRC with regard to the phasing out of Industrial Buildings Allowances in the UK on Balfour Beatty Capital's road concessions. In 2008 a conservative view of this treatment was adopted, which reversed in 2009. For Balfour Beatty Communities, operational performance losses principally arise from the de-scoping of the Navy South East project.

### New project wins

New project wins during 2009 for the Balfour Beatty Capital portfolio of £1m represented the preferred bidder appointment on the Blackburn with Darwen and Bolton BSF scheme in October 2009, which reached financial close in January 2010. For Balfour Beatty Communities new project wins during 2009 of £1m represented the Florida Atlantic University student housing project.

### Acquisitions

Acquisitions during 2009 for the Balfour Beatty Capital portfolio of £3m comprised the purchase of a 20% interest in the Newcastle BSF project (£2.5m) arising from the acquisition of Parsons Brinckerhoff in October 2009, and the purchase of a further 5% interest in the Aberdeen wastewater project (£0.5m).

### The valuation method

The valuation does not set out to estimate the market value of the investments in the portfolio, but rather, through the application of a consistent methodology, illustrates movements in underlying values between periods and highlights the impact of intervening transactions. The valuation covers 48 concessions that have reached financial close and a further two at preferred bidder stage.

### DCF

The method used to value the portfolio is discounted cash flow ("DCF"). This method is applied to the future forecast cash flows to which Balfour Beatty as a shareholder and a holder of subordinated debt and recipient of fees is entitled in order to create a net present value. DCF has been used on all the investments. For projects which have reached financial close, forecast future cash flows are extracted from detailed financial models, updated in line with operational experience and lenders' requirements. For projects at preferred bidder stage, the current pre-close financial model has been used.

### Discount rate

As in 2008, the Directors have adopted a single discount rate of 8.0% nominal post shareholder tax to value the portfolio of closed and preferred bidder projects. The Directors' valuation of Balfour Beatty's investment portfolio is sensitive to the discount rate adopted. The valuation for a range of discount rates is shown on page 69.

### Shareholder tax

Balfour Beatty receives a number of cash flow streams from its investments. Most, but not all, of these cash flows are subject to tax upon receipt by the Balfour Beatty Group. The Directors' valuation takes into account these cash flows after the imposition of taxation upon the Group and thus uses a post-tax discount rate. The post-tax discount rate of 8.0% used in the Directors' valuation equates to a discount rate of 10.1% (9.4% for Balfour Beatty Capital and 12.1% for Balfour Beatty Communities) were the value of the cash flows to be reported before the imposition of Group taxation, a methodology also currently used in the marketplace. The pre-tax discount rate of 10.1% at 31 December 2009 compares to a pre-tax discount rate of 10.4% in the Directors' valuation at 31 December 2008, the reduction being due to changes in the proportionate value of the Balfour Beatty Capital and Balfour Beatty Communities portfolio from year to year. The pre-tax discount rate of 12.1% for Balfour Beatty Communities at 31 December 2009 compares to a pre-tax discount rate of 12.5% in the Directors' valuation at 31 December 2008, the reduction being due to changes in the mix of forecast cash flows from year to year.

### Translation gain

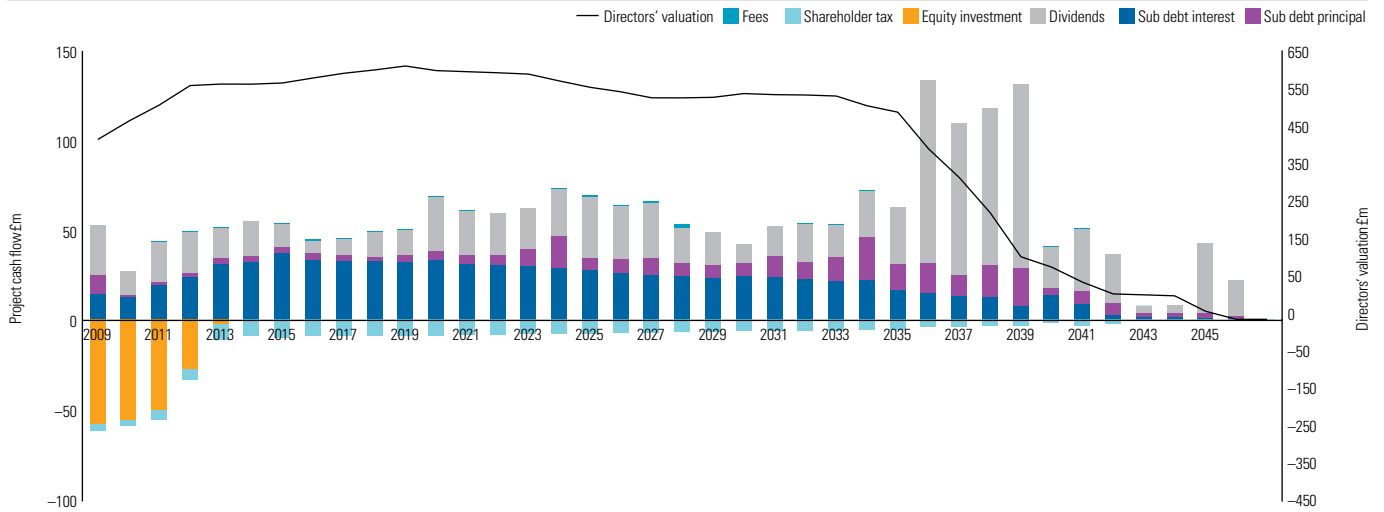
The value of Balfour Beatty Communities is included in the Directors' valuation as at 31 December 2009 at the US\$ exchange rate prevailing on that date of 1.62 (2008: 1.46). This generated an unrealised loss on translation relating to the Balfour Beatty Communities portfolio valuation of £18m. Of the Balfour Beatty Capital portfolio of 32 projects, one project, ITE West in Singapore, has non-sterling denominated cash flows. The unrealised translation loss on the value of ITE West is immaterial and does not register in the movement analysis.

The values shown as at 31 December 2009 for equity committed of £524m and equity invested of £364m include the acquired Balfour Beatty Communities portfolio of £123m (US\$244m) at the exchange rate applicable at the acquisition date of 1.98 together with equity contributed since acquisition of £24m, comprising £23m of equity contributed during 2008 translated at an exchange rate of 1.98 and £1m contributed during 2009 translated at an exchange rate of 1.46. A further £23m (US\$37m) of future equity commitments for Balfour Beatty Communities have been translated into sterling at the 31 December 2009 exchange rate of 1.62. In addition, the movement in value analysis for Balfour Beatty Communities between years has been translated at an exchange rate of 1.46, the movement between that rate and the year-end exchange rate of 1.62 is shown separately as FX translation.

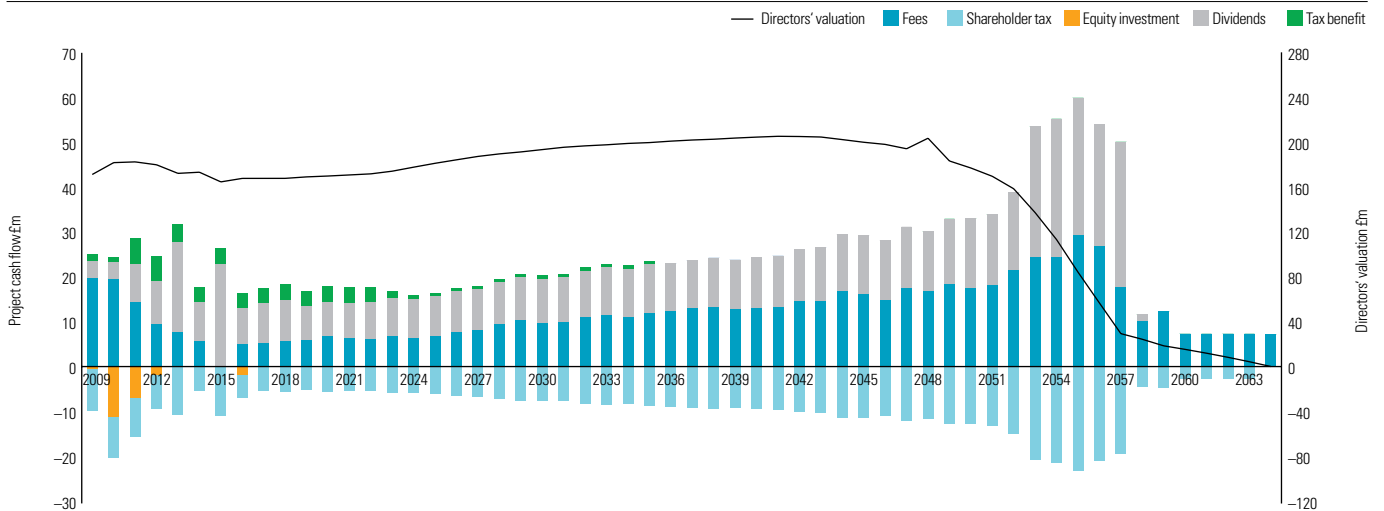
### Assurance

The calculations underpinning the valuation have been independently checked to ensure that the valuation has been accurately carried out in accordance with the specified methodology. However, the detailed financial models have not been audited.

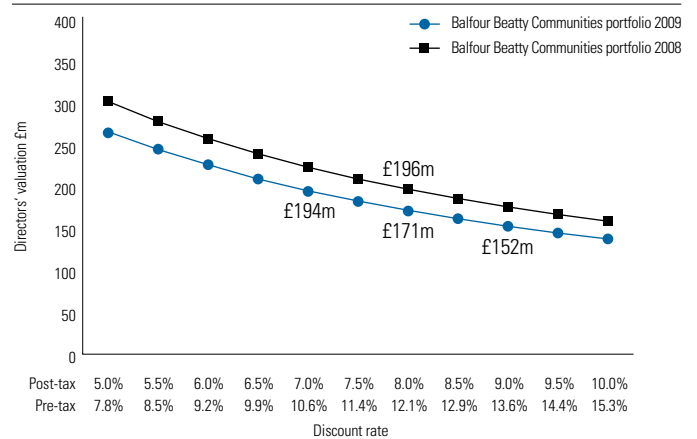
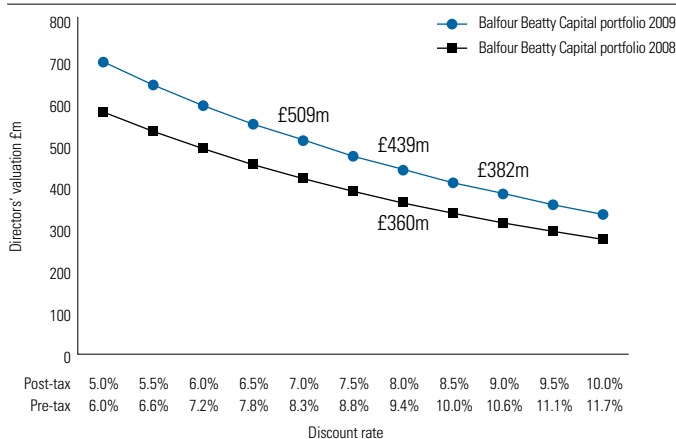
### Balfour Beatty Capital – Annual forecast cash flows and DCF valuation over time



### Balfour Beatty Communities – Annual forecast cash flows and DCF valuation over time



### Balfour Beatty PPP concessions' valuation range



# Principal risks and risk management

## Risk management process



The effective management of risks within the Group is essential to, and underpins the delivery of, the Group's objectives.

The Board is responsible for ensuring that risks are identified and appropriately managed across the Group and has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal controls, including the systems established to identify, assess, manage and monitor risks.

Responsibility for risk identification, analysis, evaluation, mitigation, reporting and monitoring rests with operating company management. The Group's risk management policy requires all operating companies to identify and assess the risks to which they

are exposed. Risk registers are used to document risk events identified, their cause and possible consequences. Risks are then analysed as to the likelihood of occurrence and also their potential impact on the business. Actions are developed and put in place to mitigate or eliminate unwanted exposure. Individuals are allocated responsibility for assessing and managing the risks identified to an agreed timescale.

Risks and their corresponding mitigating actions are subject to review within the Group and established business reporting systems exist to ensure that significant risks are escalated through operating company management to senior Group management and to the Board.

## Principal risks and risk management

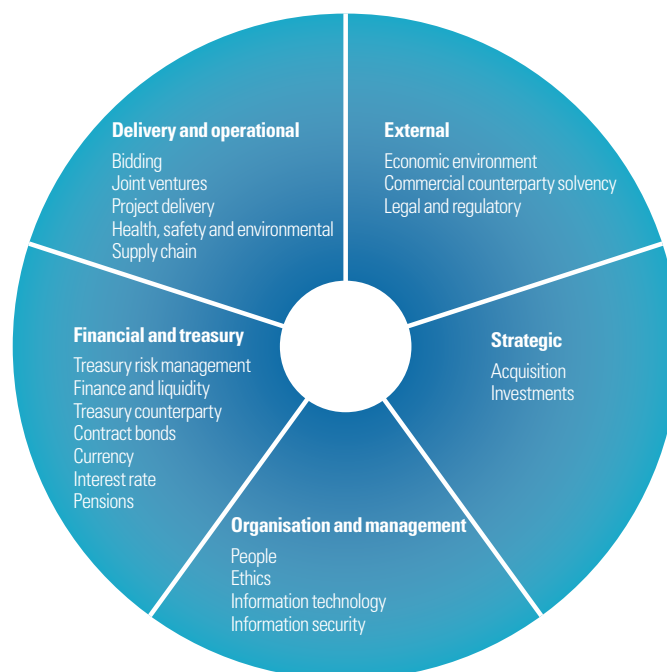
As part of the implementation of the Group's strategy to grow and protect the business, Group management identified the need to respond to the changing business environment. It has sought to do so by diversifying the markets and geographies in which the Group operates.

The success in achieving this to date has produced a business portfolio, led by an established management team supported by robust risk management processes, which has enabled the Group to meet the challenges arising from the changing economic and commercial environment.

In some of the Group's markets and territories, 2009 was a challenging year, due to the ongoing effects of the economic downturn. As a result, the Group has witnessed changes in customer spending in both the public and private sector and experienced an increased risk of insolvency/financial default. This is not only within the supply chain but within elements of the Group's established customer base. In addition, the acquisition of Parsons Brinckerhoff now means that the Group operates in a larger number of territories and markets than before, which potentially increases the Group's risk exposure in those areas.

Despite these changes within the business environment, the Group's established risk management and internal control systems have helped identify the effects of these increased risks and implement actions not only to mitigate their impact but offer opportunity for further growth and development.

Set out below is a description of the key business risks facing the Group, their potential impact and the mitigation steps taken to minimise/eliminate that impact:



Risk	Potential impact	Mitigation
<b>External risks</b>		
<p><i>Economic environment</i></p> <p>The global economic downturn may cause the Group's customers to cancel, postpone or reduce existing or future projects. In particular, the Group is dependent on UK and US Government policies and spending for a significant part of its revenues.</p>	<p>Any significant changes in customer spending or investment plans could adversely impact the Group's order book.</p>	<p>The Group has a broad exposure to various infrastructure markets across the world and this mitigates the risk of changes in spending in any one market.</p>
<p><i>Commercial counterparty solvency</i></p> <p>The Group is exposed to counterparty credit risk of its customers, subcontractors, joint venture partners, financial institutions and suppliers. This risk is increased further by the current economic climate.</p>	<p>Failure of a customer could result in non-collection of amounts owed. Failure of a subcontractor or supplier would result in the Group undertaking the task itself or having to find a replacement, which could result in delays and additional costs.</p>	<p>The financial solvency and strength of counterparties are considered prior to the signing of contracts. During the life of the contract such assessments are updated and reviewed whenever possible. The Group seeks to ensure it is not over-reliant on any one counterparty. During the life of a project, retentions, bonds and/or letters of credit will be obtained, where appropriate, from subcontractors to mitigate the impact of any insolvency on their part.</p>
<p><i>Legal and regulatory</i></p> <p>The Group is subject to a number of complex, demanding and evolving legal, tax and regulatory requirements. These requirements will increase as the Group continues to expand into a diverse number of territories.</p>	<p>A breach of laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business ranging from additional costs incurred on a project, to civil and/or criminal penalties, debarment as well as reputational damage to the Group.</p>	<p>The Group monitors and responds to legal and regulatory developments applicable to the territories in which it operates. A territory's legal and regulatory framework is considered as part of any decision to move into a new territory for the Group.</p>
<b>Strategic risks</b>		
<p><i>Acquisition</i></p> <p>The Group has made and continues to make acquisitions in pursuit of its strategic objectives.</p>	<p>Failure to identify acquired liabilities or to integrate successfully the business acquired into the Group's processes could result in an adverse impact on the Group's future prospects, financial condition and profitability.</p>	<p>Detailed due diligence including preparation of a valuation model is performed on all potential acquisitions drawing upon both internal and external resources. Such due diligence will also include an assessment of the ability to integrate the acquired business successfully into the Group. When a business is acquired detailed integration plans are developed and monitored to ensure the successful integration of the business into the Group and its internal control framework.</p>
<p><i>Investments</i></p> <p>The Group invests in a number of PPP projects, infrastructure projects across the world and infrastructure asset investments. The success of such investments is dependent on a number of assumptions on future revenues and costs.</p>	<p>If any of the assumptions should prove to be incorrect they could have an adverse impact on the profitability of those investments. The degree of leverage involved in these investments means that small changes in these assumptions could also negatively impact the Group's equity investment.</p>	<p>All investment appraisals are conducted and managed by experienced personnel. Revenue maximisation is carefully managed. The consequent delivery risk arising from an investment activity is managed by the careful selection of delivery and service partners. In many cases such partners are Group companies.</p>



## Principal risks and risk management

Risk	Potential impact	Mitigation
<b>Organisation and management risks</b>		
<p><i>People</i></p> <p>The success of the Group depends on its ability to recruit and retain senior management and other key employees.</p>	<p>Failure to recruit and retain appropriately skilled people could adversely impact the Group's ability to deliver specific contracts and its future growth.</p>	<p>Organisation and People reviews are undertaken by each operating company to review the role, competencies, performance and potential of personnel. In addition, the Group has a well-developed succession planning process in place to identify and develop high potential/calibre personnel to fill key roles. These plans are reviewed and discussed at all levels within the organisation and by the Board on a regular basis. Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees.</p>
<p><i>Ethics</i></p> <p>The Group operates in various international markets which may have inherent risks relating to ethical business conduct including but not limited to fraud, bribery and other forms of corruption.</p>	<p>Failure by employees to observe the highest standards of ethics and integrity in dealing with customers, suppliers and other stakeholders could result in civil and/or criminal penalties, debarment, as well as reputational damage to the Group.</p>	<p>The Group has clearly set out its expectations of employees and operating companies in dealing with its stakeholders in the recently revised Code of Conduct. This has been distributed to all employees and during 2010, e-learning will be used to raise awareness of the Code within the Group. In addition, there are a number of financial and commercial controls in place to manage these rules. A committee of the Board, the Business Practices Committee, monitors compliance with the Code of Conduct and the effectiveness of the Group's ethics and compliance programme.</p>
<p><i>Information technology</i></p> <p>The efficient operation of the Group is increasingly dependent on the proper operation, performance and development of its IT systems.</p>	<p>Failure to manage or integrate IT systems or to implement successfully changes in IT systems could result in a loss of control over critical business information and/or systems. This in turn could impact the Group's ability to fulfil its contractual obligations.</p>	<p>Group IT manages centrally those systems which affect a number of operating companies. Other IT systems are managed within operating companies locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval.</p>
<p><i>Information security</i></p> <p>The Group is exposed to potential information security threats to its own information and also that which it holds on behalf of customers (in particular, in respect of its facilities management customers).</p>	<p>A breach of information security or an improper disclosure of such information could expose the Group to adverse publicity, investigation and legal claims.</p>	<p>The Group has developed and rolled out formal information security standards which operating companies are expected to meet as a minimum. They are subject to periodic assurance by an independent third party.</p>
<b>Financial and treasury risks</b>		
<p>The Financial review on page 66, together with Note 20 of the accounts, provide details of the Group's financial and treasury risks.</p>		
<p><i>Pensions</i></p> <p>The Group is exposed to funding risks (arising from changes in longevity, inflation and investment assumptions) in relation to its defined benefit pension schemes. At present there are actuarial deficits in these schemes.</p>	<p>The amount of the deficit can be affected by a number of factors which would result in an additional funding requirement.</p>	<p>Measures to mitigate liabilities are under continuous review by the Group. For example, steps have been taken to restrict certain future increases in the principal defined benefit schemes' liabilities. The performance of the Group's pension schemes are regularly monitored by the Group and the Trustees of the pension scheme who, as appropriate, take advice from external consultants.</p>

Risk	Potential impact	Mitigation
<b>Delivery and operational risks</b>		
<p><i>Bidding</i></p> <p>The Group, through its operating companies, seeks to win work through a large number of bids each year.</p>	<p>Failure to identify risks, estimate costs and timing and how best to manage them could have an adverse impact on the profitability of such contracts to the Group.</p>	<p>All bids are subject to rigorous estimating and tendering processes within a defined framework. Defined delegated authority levels exist for the approval of all tenders with all major and significant contracts being subject to Group review and approval.</p>
<p><i>Joint ventures</i></p> <p>In certain instances where the Group may not possess the necessary strengths/expertise it will engage in joint ventures with carefully selected partners to deliver certain contracts.</p>	<p>In the event of a disagreement with, failure to deliver by, or poor performance of a joint venture partner, the Group could be exposed to financial and reputational risks.</p>	<p>The Group has procedures in place to ensure that it selects joint venture partners with the relevant skills, experience, resources and values to complement those of the Group. The performance of joint venture partners is monitored throughout the life of the project.</p>
<p><i>Project delivery</i></p> <p>The Group is engaged in a number of complex design, engineering, construction, facilities management and asset management projects.</p>	<p>Failure to manage or deliver a project to an appropriate quality and on a timely basis could result in a number of issues (ie contract disputes, unagreed claims, design issues, cost overruns) which could adversely impact the profitability and reputation of the Group.</p>	<p>Each operating company has operating procedures designed to address the risks inherent in project delivery. In addition, the Group's risk management framework facilitates the identification of specific risks on projects and the mitigating actions required. Projects are subject to management review at all levels to monitor progress and to review steps put in place to address specific risks identified on those projects.</p>
<p><i>Health, safety and environmental</i></p> <p>The Group's activities require the continuous monitoring and management of health, safety and environmental risks.</p>	<p>Failure to manage these risks could result in serious harm to employees, subcontractors, the public or the environment and could expose the Group to significant potential liabilities and reputational damage.</p>	<p>Detailed HSE policies and procedures exist to minimise such risks and are subject to review and monitoring by both operating companies and Group and are also subject to external audit. More details on the Group's approach to health and safety management is shown in the sustainability section on pages 56 to 61.</p>
<p><i>Supply chain</i></p> <p>The delivery of a large number of the Group's contracts is dependent on the continued availability and effective management of subcontractors and other service providers.</p>	<p>The failure of a subcontractor to perform to an appropriate standard and quality could result in delays to a project and adversely impact the ability of the Group to meet its contractual and other commitments.</p>	<p>The Group seeks to develop long-term relationships with its key subcontractors whilst at the same time not becoming over-reliant on any one for the delivery of certain services. As part of its selection criteria, the Group seeks to partner with subcontractors/suppliers who share its values.</p>

## Directors' report

### Business and financial review

The Chairman's statement on pages 8 and 9, the Chief Executive's review on pages 10 to 20, the Operating review on pages 37 to 55, the Sustainability statement on pages 56 to 61 and the Financial review on pages 64 to 66, are incorporated by reference into the Directors' report.

### Results and dividends

The results for the year are shown in the audited financial statements presented on pages 92 to 159 and are explained more fully in the Chief Executive's review, the Operating review and the Financial review. An interim dividend payment of 4.8p (net) per ordinary share (restated for the bonus element of the rights issue) was approved by the Board on 11 August 2009 and a final dividend of 7.2p (net) per ordinary share will be recommended at the Annual General Meeting. Adjusting the dividends prior to the October 2009 Rights Issue for the bonus element, gives a total of 12.0p (net) per ordinary share, which compares with a restated total dividend per ordinary share of 11.1p (net) in 2008. Preference dividends totalling 10.75p (gross) per preference share have been paid for 2009 (2008: 10.75p (gross) per preference share).

The Directors continued to offer the dividend reinvestment plan (DRIP).

### Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems. A range of development initiatives is undertaken throughout the businesses which is supported by links with selected universities.

The Group innovation forum is one of several fora through which the Company is enhancing the sharing of knowledge and the encouragement of joint working between the various businesses. The forum has representatives from each of the Group's operating companies. Improving the ability to tap into the depth and breadth of expertise and capability which exists within the Group, and sharing it, is seen as a key enabler and catalyst for innovation, as well as serving to identify where the Group can respond better to the needs of its various stakeholders.

Details of the Group's 2009 research and development expenditure are given in Note 4.1 on page 107.

### Share capital and shareholders

Details of the share capital of the Company as at 31 December 2009, including the rights attaching to each class of share, are set out in Note 27 on pages 140 and 141. During the year to 31 December 2009 no ordinary or preference shares were repurchased for cancellation. 1,337,199 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 433,694 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes.

On 17 September 2009, the Board announced that the Company had entered into an agreement to acquire Parsons Brinckerhoff Inc for a cash consideration of US\$626m (£382m) which would be substantially financed by a fully underwritten Rights Issue of 205,472,590 new ordinary shares ("New Shares") at an issue price of 180p per New Share and on the basis of three New Shares for every seven existing ordinary shares.

At the general meeting held on 7 October 2009, holders of the Company's ordinary shares approved the acquisition of Parsons Brinckerhoff Inc and the rights issue and they also approved an increase in the Company's authorised share capital from £350m to £500m by the creation of an additional 300m ordinary shares of 50p each.

On 23 October 2009, the Company announced that it had received valid acceptances in respect of 199,469,067 New Shares, representing 97.06% of the total number of New Shares offered to shareholders under the Rights Issue. Subsequently, on 23 October 2009, the Company then announced that JPMorgan Cazenove Limited and RBS Hoare Govett Limited, as joint bookrunners, had procured acquirers for the remaining 6,033,170 New Shares for which valid acceptances had not been received, at a price of 287p per New Share, bringing the total issued New Shares to 205,502,237, the difference arising due to the issue of 69,176 ordinary shares on the exercise of share options under the Company's employee share plans between 17 September and 2 October 2009 (the record date for the Rights Issue). With the New Shares, the total issued ordinary shares at 23 October 2009, stood at 685,007,456.

At 31 December 2009, the Directors had authority under shareholders' resolutions approved at the AGM and at the separate Class meeting held in May 2009 to purchase through the market 47,804,226 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which will follow the 2010 AGM or on 1 July 2010 whichever is earlier.

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

Details of employee share schemes are set out in Note 30 on pages 146 to 148. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

There is no person who has special rights of control over the Company's share capital and all issued shares are fully paid.

As at 3 March 2010, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Standard Life Investments Limited	54,467,327	7.95
Legal & General Group plc	41,145,213	6.00
Prudential plc	35,281,599	5.15
Blackrock Inc	33,968,367	4.96
Lloyds Banking Group plc	29,805,016	4.35
AXA SA	22,003,406	3.21

### Directors

The names of the Directors at the year-end are shown on pages 62 and 63 together with brief biographical details. Full details of Directors' service agreements, emoluments and share interests, can be found in the Remuneration report on pages 82 to 90.

On 1 January 2009, Andrew McNaughton was appointed as an executive Director and Graham Roberts was appointed as a non-executive Director.

Stephen Howard retired from the Board on 17 August 2009 and Iain Ferguson was appointed as a non-executive Director on 1 January 2010.

At its Board meeting in March 2010, as part of its annual audit of corporate governance compared with the Combined Code, the Board considered the independence of the non-executive Directors against the criteria specified in the Combined Code and determined that each of them continues to be independent. In particular, the Directors considered the position of Robert Walvis, Senior Independent Director, who will have completed nine years of service on the Board in September 2010. In view of Mr Walvis' significant contribution to Board and Board Committee discussions, the judgement he exercises and the challenge he provides, the Board had no hesitation in concluding that he remains independent.

Mike Donovan, Gordon Sage and Robert Walvis are due to retire by rotation as Directors at the forthcoming AGM and, being eligible, offer themselves for re-election. Iain Ferguson, who was appointed by the Board since the date of the last AGM, will offer himself for election in accordance with the Company's Articles of Association.

Non-executive Directors are appointed for specific three-year terms and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three year intervals, or as near to that as is practicable and make recommendations to the Board accordingly.

### 2009 Board and Board Committee meetings

Details of the number of meetings of, and attendances at, the Board meetings and meetings of the Audit, Business Practices, Nomination and Remuneration Committees during the year are set out in the following table.

Name of Director	Board	Audit	Business Practices	Nomination	Remuneration
M J Donovan	11 (12)	3 (4)	3 (3)	2 (2)	
S L Howard <sup>(2)</sup>	6 (7)		1 (1)	0 (1)	3 (3)
G E H Krossa	10 (12)	3 (4)	3 (3)		3 (4)
D J Magrath	11 (12)				
S Marshall <sup>(3)</sup>	12 (12)	4 (4)	3 (3)	2 (2)	4 (4)
A J McNaughton	11 (12)				
A L P Rabin	10 (12)				
G C Roberts	11 (12)	4 (4)	3 (3)		
G H Sage	10 (12)	4 (4)		2 (2)	3 (4)
I P Tyler	12 (12)			2 (2)	
R J W Walvis	10 (12)	4 (4)		2 (2)	4 (4)
P J L Zinkin	11 (12)				

Notes:

- (1) The number shown in brackets is the total number of meetings the Directors could attend either following their appointment during the year, or as a result of changes to Committee memberships.
- (2) Retired on 17 August 2009.
- (3) Mr Marshall attends the Audit Committee but is not a member.
- (4) Several Board Committee meetings also took place during the year specifically in relation to the rights issue and acquisition of Parsons Brinckerhoff Inc.

Non-attendance at meetings was due to illness and prior business commitments. In each case, where Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chairman, as appropriate.

### Board Committee membership

Owing to the changes in the composition of the Board, the membership of each of the Company's Board Committees has been reassessed. As at 3 March 2010, the membership of the Committees is as follows:

Audit	Business Practices	Nomination	Remuneration
Graham Roberts <sup>(1)</sup> (Chairman)	Mike Donovan <sup>(2)</sup> (Chairman)	Steve Marshall (Chairman)	Robert Walvis (Chairman)
Mike Donovan	Iain Ferguson	Mike Donovan	Iain Ferguson
Hubertus Krossa	Hubertus Krossa	Graham Roberts	Hubertus Krossa
Gordon Sage	Steve Marshall	Gordon Sage	Steve Marshall
Robert Walvis	Graham Roberts	Ian Tyler Robert Walvis	Gordon Sage

Notes:

- (1) Graham Roberts was appointed chairman of the Audit Committee on 5 March 2009.
- (2) Mike Donovan was appointed chairman of the Business Practices Committee on 17 August 2009 following the retirement of Stephen Howard.

### Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. The Directors have put in place procedures to ensure the Board collectively and the Directors individually comply with the disclosure requirements on conflicts of interest introduced on 1 October 2008 under the Companies Act 2006. At its meeting each January, a formal declaration of interests is reviewed by the Board.

The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive scheme (the Performance Share Plan 2006), the deferred bonus plan and share options, are set out in the tables in the Remuneration report commencing on page 82.

There have been no changes in their respective interests since 31 December 2009.

### Directors' indemnities

The Company grants an indemnity to all of its Directors to the extent permitted by law. These indemnity amounts are uncapped in relation to losses and liabilities which Directors may incur to third parties in the course of acting as a Director of the Company, or in any office where such duties are performed at the request of the Board, or as a result of their appointment as Directors.

### Directors' training

Directors receive a significant induction programme and a range of information about the Company when they join the Board. This includes considerable background information on Balfour Beatty, its codes of business conduct and ethics, processes for dealing in Balfour Beatty shares and Board procedures. In addition, they also take part in a series of one-to-one meetings with other members of the Board and senior executives which include briefings on the Company's business strategy, financial procedures, business development and other key issues.

The training programme is supplemented throughout the year by a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects both in the UK and overseas.



## Directors' report

Normally, day-long meetings take place for each non-executive Director four times each year.

Presentations on ad-hoc topics are then arranged as appropriate, for example, on new material laws or regulations as they affect the Group or the Directors. In 2009, the Board received guidance notes on such topics as the final implementation of the Companies Act 2006, the Financial Reporting Council's review of the Combined Code, the Walker Review, the Shareholders' Rights Directive and the Bribery Bill.

Each Director has also been enrolled in an external facility which provides a wide-ranging programme of technical briefing, education and training throughout the year.

### Auditors

Deloitte LLP have indicated their willingness to continue as auditors to the Company and a resolution for their appointment will be proposed at the AGM.

### Corporate governance and the Combined Code

#### Overview

The Company is committed to high standards of corporate governance. The UK Listing Authority requires listed companies to disclose, in relation to Section 1 of the Combined Code issued by the Financial Reporting Council which is appended to the UK Listing Rules, how they have applied its principles and whether they have complied with its provisions through the accounting period. The Company has complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period other than in two respects:

- (i) Graham Roberts was appointed chairman of the Audit Committee on 5 March 2009 having succeeded Steve Marshall as the Committee chairman. Following his appointment as Chairman of the Company in May 2008, Steve Marshall had continued to chair the Committee on a temporary basis pending the appointment of his successor. He continued to attend Committee meetings during 2009.
- (ii) The effectiveness of the Group's procedures is kept under review by the Business Practices Committee (BPC) and not by the Audit Committee. The principal reason for this is that the BPC, in particular, focuses on the Company's business conduct, its ethics and values and, ensuring that procedures exist for employees to raise concerns in confidence, is an integral element within its overall remit. The Audit Committee is kept informed of any allegations of fraud or poor financial controls and internal audit are involved in carrying out investigations into such claims.

### Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003, following his retirement as Chairman.

### Chairman

Steve Marshall became Chairman in May 2008, having joined the Board in November 2005. Steve Marshall spends an average of two days per week on the business of the Company. He is also non-executive chairman of Delta plc. The Board considers that his other commitments are not of such a nature as to hinder his activities as Chairman of the Company or Committees.

### The Board

The Board currently comprises 12 Directors, of whom seven, including the Chairman, are non-executive. Details of the changes during the year can be found under the heading "Directors" on page 74. The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Throughout 2009, Ian Tyler was Chief Executive and the Senior Independent Director was Robert Walvis.

The Board is collectively responsible for the success of the Company and has a formal schedule of matters reserved for its decision which includes the matters summarised below.

- Determining the Group's strategic direction
- Approving annual budgets and financial reporting, including the annual and half-year results and interim management statements
- Approving interim, and recommending final, dividends
- Approving major acquisitions and disposals and significant capital expenditure
- Ensuring the necessary financial and human resources are in place to achieve objectives and reviewing management performance
- Setting the Company's values and ethical standards
- Approving policies and systems for risk management and assurance

The Board reviewed its list of reserved matters in 2009 and, most recently in March 2010. The terms of reference of the Board and the Board Committees are available on request from the Company Secretary and are also displayed on Balfour Beatty's website [www.balfourbeatty.com](http://www.balfourbeatty.com). Descriptions of the specific responsibilities which have been delegated to the principal Board committees are also provided on pages 77 to 79.

### Board procedures

Procedures for Board meetings remain unchanged from previous years. Papers are generally sent out at least three business days in advance of the meeting. The papers include a written report from each of the Chief Executive, the Chief Operating Officer, the Finance Director, and the director of Safety, Health and the Environment. At the meetings, oral reports are made on issues arising from the written reports and both those and other matters of immediate interest or concern are discussed by the Board, for example mergers and acquisitions activity.

Apart from the meetings that approve the interim and final results respectively a separate presentation on a topic of interest or concern, such as the operations of a particular business, is normally made to the Board. Each meeting lasts three to four hours, but can be longer.

The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and for ensuring that Board procedures are followed. He is also available to individual Directors for advice on these procedures.

### 2009 meeting programme

Most meetings of the Board during 2009 were held in London, with three meetings held elsewhere.

On the evening preceding a Board meeting, the Directors will meet and will generally focus their discussion on a pre-determined developmental theme, led by one of the executive Directors, other senior management or a specialist external speaker. For example, in 2009, the themes included innovation, reputation and brand and strategy.

At meetings during the year, the Board discharged its responsibilities in accordance with its remit. In particular, the following topics were some of those which were comprehensively reviewed:

- Medium-term plan and 2009 annual budget
- Investor relations
- IT strategy
- Rights issue and the acquisition and integration of Parsons Brinckerhoff Inc
- Business reviews – Rail and Construction services
- Values and ethics

In addition, the Board dedicates particular meetings to certain key business themes, for example health and safety, strategy, and succession planning. These meetings are also attended by senior managers, as required from time to time.

### Evaluation

Formal evaluation of the performance of the Board and of the principal Board Committees, as well as individual assessments of the Directors themselves, are normally carried out by an external consultant triennially, with internal assessments carried out in the intervening two years.

The most recent evaluation was completed in February 2010 using an external consultant, who was appointed following a detailed assessment of the services provided by a number of providers and a series of interviews.

The evaluation process comprised a series of one-on-one interviews with each member of the Board and other members of the senior management team and the report has been reviewed by the Board at a meeting dedicated for this purpose.

The comprehensive nature of the review followed regulatory guidance on the evaluation of the Board, its delegated committees and individual members.

The Board has discussed the outcomes of the report and will make any appropriate changes in due course.

In the intervening years, an evaluation process is carried out by the Company Secretary, at the request of the Chairman. This comprises an assessment questionnaire covering the effectiveness of the Board and its Committees including composition, arrangements for and content of meetings, access to information and administrative procedures.

### Board Committees

The Board has established several Committees, each with defined terms of reference, procedures, responsibilities and powers.

In accordance with the requirements of the Combined Code, the Committees' terms of reference are reviewed periodically to ensure they remain comprehensive and relevant. The principal Committees' terms of reference are displayed on the website [www.balfourbeatty.com](http://www.balfourbeatty.com).

Procedures for Board Committees mirror those adopted for Board meetings, with papers generally distributed to members at least three business days before the meeting. The minutes of the Committee meetings are sent to all Directors and oral updates are given at Board meetings.

Committee membership is shown on page 63.

### Board Committees

Audit Committee	Remuneration Committee	Nomination Committee	Business Practices Committee	Group Tender and Investment Committee	Finance and General Purposes Committee
<ul style="list-style-type: none"> <li>• Financial statements</li> <li>• Financial controls</li> <li>• External auditor</li> <li>• Internal audit</li> <li>• Risk management and assurance</li> </ul>	<ul style="list-style-type: none"> <li>• Remuneration strategy and policies</li> <li>• Remuneration packages</li> <li>• Incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>• Structure and composition of Board</li> <li>• Appointment of non-executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Ethics and Codes of Conduct</li> <li>• Health &amp; Safety</li> <li>• Sustainability</li> <li>• Whistleblowing</li> </ul>	<ul style="list-style-type: none"> <li>• Major contract approvals</li> <li>• Investments and divestments</li> <li>• Capital expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Borrowings</li> <li>• Banking arrangements</li> <li>• Share options</li> <li>• Share buy-backs</li> </ul>

### – Audit Committee

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council (formerly "Smith Guidance"). The terms of reference were approved by the Board in October 2003 and updated most recently in July 2009. The main responsibilities of the Audit Committee are summarised below:

- (1) to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- (2) to review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditors;
- (3) to monitor and review the effectiveness of the internal audit function including its work programme;
- (4) to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor; and
- (5) to assess the independence, objectivity and effectiveness of the external auditor and to develop and implement policy on the engagement of the external auditor to supply non-audit services.

The Committee has been chaired by Graham Roberts since 5 March 2009. Members' attendance at Committee meetings is shown on page 75.

The Committee is supported by the Company Secretariat. All members of the Committee have extensive experience of management in large international organisations. Graham Roberts is a chartered accountant and is finance director of The British Land Company PLC and has been identified by the Board as having recent and relevant financial experience.

Appointments to the Committee are made by the Board for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent. At the Board meeting following each meeting of the Committee, the Committee chairman provides an oral report on the work of the Committee and any significant issues that may have arisen. The minutes of Committee meetings are circulated to all members of the Board.

Four meetings of the Committee were held in 2009. At the invitation of the Committee, partners from the external auditor, the Head of Group Risk Management and Assurance, the Deputy Chief Executive and the Finance Director regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

## Directors' report

In 2009, as in previous years, the main purpose of the February and August meetings of the Committee was to consider the final and interim results respectively, a process which is well established. At each of these meetings, the Committee reviewed significant accounting policies, financial reporting issues and judgements and reports from management and internal and external auditors.

Throughout 2009, the Committee has continued to review the Group's risk management processes. As a result, the Committee felt able to recommend to the Board that it might properly conclude that the Company continued to maintain a sound system of internal control and that a proper review of the effectiveness of the Company's systems of internal controls had been completed.

- *External auditor independence and effectiveness* – to assess the independence and effectiveness of the external auditor, Deloitte LLP, the Committee carries out a formal review annually comprising the following elements:
- *Non-audit work* – compliance with the Group policy is tested each year. At each meeting, the Committee also reviews the non-audit work which has been carried out by the external auditor and that planned, together with the associated fees. The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where their independence is, or might be seen to be, compromised. Under no circumstances will any assignment be given to the external auditor, when the result is that:
  - as part of the statutory audit, they are required to report directly on their own non-audit work;
  - they make management decisions on behalf of the Group;
  - a mutuality of interest is created;
  - they act as advocates for the Group; or
  - the level of non-audit fees is such, relative to audit fees, as to raise concerns about their motivation in forming objective judgements.

Under the policy outlined above, all requests to engage the external auditor for non-audit work are subject to the approval of the Finance Director under certain criteria, or otherwise, the Committee. The external auditor also complies with the Accounting Practices Board (APB) Ethical Standards applying to non-audit services. There is no inconsistency between these APB standards and the Company's policy.

In 2009, the external auditor carried out a significant amount of non-audit related work principally in connection with the acquisition of Parsons Brinckerhoff Inc and its post-acquisition fiscal restructuring. Other non-audit work carried out during 2009 related, in the main, to tax advice/compliance in Europe and the US. The Committee considers that the Company receives particular benefit from the advice provided by its external auditor, given their wide and detailed knowledge of the Group and its international nature.

- *Annual internal assessment* – a detailed internally prepared assessment of the previous year's external audit process, together with any identified improvement recommendations. In carrying out this assessment, each operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year.
- *External auditor's assessment* – an assessment is also carried out by the external auditor in consultation with the operating companies using a structured questionnaire. In addition, the Audit Committee also participates in responding to the questionnaire.

Having completed its review and having received their formal statement of independence, the Committee is satisfied that the external auditor remains independent of the Company.

The Committee has carried out a review of the proposal made by the external auditor in respect of the audit fees and terms of engagement for the 2010 audit and has recommended that the Board proposes to shareholders that Deloitte LLP continue as the Company's external auditor.

*External auditor rotation* – Audit partners are rotated every five years. The advisory partner will be changing in 2010 and the audit engagement partner will be changing in the 2011 financial year.

Consideration would be given to carrying out an audit tender process in circumstances where the external auditor's performance has been called into question, or where, through the audit partner rotation process, no suitable replacement was identified.

### – Nomination Committee

The Committee is chaired by Steve Marshall and members' attendance at the meetings of the Committee is given on page 75. The Committee is supported by the Company Secretariat. The Committee, which meets as and when required (2009: two meetings), keeps under review the composition and balance of the Board and makes recommendations to the Board on all new appointments and re-appointments of non-executive Directors. During the 2009 financial year, an external search consultancy was engaged to seek candidates to join the Board as non-executive Directors, who had current or recent experience as a chief executive of a public company and who had operating business experience in Europe and elsewhere. The Committee reviewed candidates as presented by the consultancy and Committee members were involved in the interview process before making their recommendations to the Board. All members of the Board were given the opportunity to meet Iain Ferguson prior to his appointment.

### – Remuneration Committee

The Committee is chaired by the Senior Independent Director, Robert Walvis and members' attendance at the meetings of the Committee is given on page 75. The Committee met four times during 2009. The Committee is supported by the Company Secretariat. Information about the workings of this Committee during the financial year is set out in the Remuneration report commencing on page 82.

### – Business Practices Committee

The Committee was chaired by Stephen Howard up to his retirement in August 2009 and, since then, by Mike Donovan. Members' attendance at the meetings of the Committee is given on page 75. The Committee is supported by the Company Secretariat.

The Committee met three times in 2009. The main topics considered by the Committee during the year related to health, safety and sustainability, and ethics, values and business conduct. In light of the settlement with the Serious Fraud Office in October 2008, this Committee focuses significant attention on values, the Group's Code of Conduct (which was revised and launched across the Group in November 2009) and on the training which will ensure that the Group's business principles are properly embedded throughout the business.

The Committee discussed the delivery of health and safety in the long term and focused on the Group's Zero Harm campaign. A particular challenge had been to ensure that the Zero Harm initiative would be adopted and implemented in multiple jurisdictions and cultures around the world. The Committee noted that Zero Harm had been enthusiastically embraced by businesses both inside and outside the UK.

Regular reports were received by the Committee on the Group's charitable activities, on its procedures in relation to staff being able to raise concerns, in confidence, and on specific incidents.

### – Group Tender and Investment Committee

This Committee comprises the executive Directors and the Group managing directors and is chaired by the Chief Executive, or in his absence, one of the other executive Directors. Its main purpose is to review all major proposed contracts with projected contract values above a specified level delegated to it. The Committee also has authority to approve capital expenditure applications and any proposed investments or divestments up to certain specified limits determined by the Board. The Committee met on numerous occasions throughout the year and minutes of its meetings are circulated to all the Directors. The Committee is supported by the Company Secretariat.

### – Finance and General Purposes Committee

The Committee comprises the executive Directors and the deputy finance director and is chaired by the Chief Executive, or in his absence, one of the executive Directors and is supported by the Company Secretariat. Its main purpose is to approve various routine banking and treasury matters, share option grants under the Company's incentive schemes and other matters relating to share capital (eg allotments). The Committee met several times throughout the year and a summary of the business conducted at the meetings is provided to all the Directors.

### Relations with shareholders

The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments.

The Company has therefore continued its long-established programme of communication with institutional investors and brokers throughout 2009. Presentations of the half-year and full-year results were made in accordance with the practice of previous years. Approximately 140 meetings have been held at regular intervals through the year with institutional shareholders, brokers and analysts including an investors' event in June 2009, which included a visit to the Aquatics Centre at the Olympic Park. This communications programme will continue and be expanded where appropriate, subject to the constraints of regulation and practice.

Senior executives, led by the Chief Executive and Finance Director, hold meetings with the Company's principal institutional shareholders to discuss the Company's strategy, financial performance and specific major investments. The Chairman has also met with a number of these institutional shareholders and the other non-executive Directors are invited to do so whenever they wish. Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman and Robert Walvis (the Senior Independent Director) and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

The Board also has access to the services of an independent external corporate and investor relations consultant who provides advice on the relationship between the Company and its institutional investors.

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board Committees attend the AGM each year as well as the other Directors and are available to answer questions from shareholders.

The website [www.balfourbeatty.com](http://www.balfourbeatty.com) is an important source of information on the Group, including financial press releases, shareholder documentation, annual and interim results presentations and the terms of reference of the principal Board Committees.

### Risk management and assurance

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on pages 70 to 73. The Board continued to assess the effectiveness of the risk management processes and internal controls during 2009 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

- the results of internal audit's reviews of internal financial controls;

- a Group-wide certification that effective internal controls had been maintained, or, where any significant non-compliance or breakdown had occurred with or without loss, the status of corrective action; and
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is properly managed, but the Board recognises that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control are applied as agreed between the parties to the venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the Turnbull Guidance on internal controls and were in place throughout the year and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

- the annual review of the strategy and plans of each operating company and of the Group as a whole in order to identify, inter alia, the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions;
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and line management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified;
- individual tender and project review procedures commencing at operating company level and progressing to Board Committee level if value, or perceived exposure, breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated to address the changing risks of the business;
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps taken to avoid or mitigate those risks. The results of those reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and specific reviews in areas of perceived high business risk; and
- the Group's policy in relation to staff being able to raise concerns, in confidence, about possible improprieties on matters of financial reporting and other issues.

These systems are extended, as soon as possible and as appropriate, to all companies joining the Group.



## Directors' report

The Head of Group Risk Management and Assurance is responsible for ensuring a comprehensive framework of assurance (including internal audit) exists within operating companies and for co-ordinating the risk management activities across the Group.

No significant failings or weaknesses have been identified by the Board in carrying out its review of the effectiveness of the risk management and internal control systems.

### Political donations

At the AGM held on 14 May 2009, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2010 AGM.

In the US and Australia, donations totalling £51,000 were made by operating companies during 2009. Most of these donations were made by Parsons Brinckerhoff Inc, a company acquired by Balfour Beatty in October 2009. These donations are small and permitted by law. In the main, they relate to support given for local campaigns. Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also strictly adhere to the Company's policies on probity set out in its Code of Conduct. A review will be conducted in 2010 into the existing practices of operating companies and the merits of any continuing contributions or donations of this type.

### Corporate responsibility

A full description of our approach to sustainability appears on pages 56 to 61. This includes more information about the Group's charitable activities, which are described briefly below.

### Written report

For the ninth year, the Company is publishing a separate Sustainability report including values, ethics, safety, social and environmental issues. A copy will be available to shareholders attending the AGM and to preference shareholders attending the separate Class meeting. The report will also be displayed on the Company's website [www.balfourbeatty.com](http://www.balfourbeatty.com)

### Group policies

The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews. Most recently, the business conduct and ethics policy has been reviewed and updated including the introduction of an external Ethics Helpline which is available to all employees and other parties with whom the Group works.

Further information on each of these policies and the progress which has been made during the year is provided in the separate Sustainability report which will be published in May 2010.

### Employment

As the Group operates across a number of business sectors in different environments, it has evolved a decentralised management structure, with employment policies designed to suit the needs of individual businesses. However, each employing company is expected to comply with certain key principles in its design and practice of employment policy.

These are:

- to provide an open, challenging and participative environment;
- to enable all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance;
- to ensure that all applicants receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief; and
- to ensure that all employees similarly receive equal treatment and specifically in relation to training, development, and career progression.

Individual businesses use a variety of methods to communicate key business goals and issues to employees and also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way they operate and do business. Regular publications inform employees of major business and technical achievements. Most of the UK-based businesses have either attained or have committed to attain the UK Investors in People standard.

Regular communication is maintained with the in-service and pensioner members of the Group's pension funds.

### Charitable activities

In the Group's centenary year, a total of £2.5m has been donated to charitable causes by the Company, either directly, or via the Balfour Beatty Charitable Trust and £210,000 through the generous contributions of its employees.

As in previous years, the Group's main efforts have been directed to a small number of charities. For the Company's centenary year, it funded the establishment of the Balfour Beatty Charitable Trust. Through this fund, branded Building Better Futures, the Company has worked principally in partnership with Action for Children, Balfour Beatty's charity for the last two years and The Prince's Trust to deliver a series of programmes aimed at helping disadvantaged young people.

During the year, through a wide variety of fundraising events and efforts, employees raised around £210,000 for Building Better Futures, a sum which was matched by the Company. £25,000 was donated through the Balfour Beatty Charitable Trust to Project HOME in Philadelphia, which supports the Balfour Beatty Math Program for young students and to the education/children programme within the Heery International Foundation.

Building Better Futures will continue to be the main focus for the Group's UK charitable fundraising efforts in 2010.

The Company has also been working with The Prince's Trust as a founder of the Trust's Construction and Building Services Leadership Group and has been a dedicated supporter of the Get into Construction programme. This programme received a donation of £15,000 during the year. The Company has also sponsored The Prince's Trust "Celebrate Success" awards with a further donation of £25,000. In total, during 2009, The Prince's Trust received donations from the Company, the Balfour Beatty Charitable Trust and employees of around £245,000 whilst Action for Children received donations of approximately £107,000.

Support for other charities including Engineers Against Poverty, RedR which provides emergency engineering help particularly in remote locations, City of Stoke Football Action Programme and Marie Curie Cancer Care has continued. The Company is also a patron of CRASH, the construction charity and has continued its membership of the charities Business in the Community and the Institute of Business Ethics.

In addition, the Group's UK subsidiaries have paid a further £543,000 to a very wide variety of other UK charitable causes in 2009.

In the US, Balfour Beatty Construction contributed more than £875,000 in 2009 to support charities such as United Way, March of Dimes and national cancer research facilities.

As in previous years, the Group continues to enable UK employees to donate to charities of their choice through the Give As You Earn scheme.

The Company continues to sponsor the London Youth Games, Europe's largest youth sports programme. In 2009, the Company donated £269,000 for the 2009 Games and supported the development of the volunteering and communications systems (£288,000). As title sponsor, the Company has committed just over a further £1m to the Games in the period up to 2013.

Further information on the Group's activities will be given in the separate Sustainability report which will be published in May 2010 and is summarised in the Community investment section on page 60.

### Post balance sheet events

Details of post balance sheet events are set out in Note 34 on page 150.

### Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. The disclosure in this report of information about any of those third parties is not considered necessary for the understanding of the development, performance or position of the Group's businesses.

### Change of control provisions

The Group's bank facility agreements contain provisions that, upon 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control and cancel all commitments under the agreement concerned. There are no agreements providing for compensation for the Directors or employees on a change of control.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty upon a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

### Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2009, the year-end creditors' days of the Company were 25 (2008: 24).

### Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are described in the Financial review on page 66 and detailed in Note 20 on pages 120 to 127.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- (1) properly select and apply accounting policies;
- (2) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (3) provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance; and
- (4) make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- (i) the financial statements, prepared in accordance with IFRSs as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (ii) the Operating and Financial reviews, which are incorporated into the Directors' report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

### Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Directors' report

By order of the Board

### C D Vaughan

General Counsel and Company Secretary

3 March 2010

Registered Office:  
130 Wilton Road  
London SW1V 1LQ

Registered in England Number 395826

# Remuneration report

## Introduction

This report has been prepared in accordance with Section 420 of the Companies Act 2006 and schedules 5 and 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

## Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board. The terms of reference of the RemCo, which were reviewed in October 2008, can be found on the Company's website [www.balfourbeatty.com](http://www.balfourbeatty.com)

The RemCo has been chaired by Robert Walvis since November 2003. Its other members during the year were Hubertus Krossa, Steve Marshall, Gordon Sage and Stephen Howard until August 2009. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. Iain Ferguson was appointed as a non executive Director on 1 January 2010 and has joined the RemCo.

During 2009 the Chief Executive, Ian Tyler, and Paul Raby, the human resources director, were invited to join meetings of the RemCo, when appropriate. The role of secretary of the RemCo is fulfilled by the Company Secretariat. No Director has any involvement in any decisions relating to his own remuneration.

The RemCo is responsible for appointing external independent consultants to advise on executive remuneration matters. This advice and assistance has been provided throughout the year by Hewitt New Bridge Street LLP ("HNBS") and PricewaterhouseCoopers LLP ("PwC"). The human resources director has also provided advice to the RemCo. During the year, PwC also provided other tax and consultancy services to the Company. The RemCo is satisfied that no conflict of interest arises from the provision of this advice.

## Executive Directors' remuneration

### General policy

It is the policy of the RemCo to establish an overall remuneration package that is competitive and which facilitates the recruitment and retention of high calibre management. The annual and long-term incentive plans make up an important part of each executive Director's remuneration and are structured so as to motivate senior managers to deliver high standards of performance, without encouraging excessive risk taking. It is intended that the share-based elements of the package will not only drive performance over the long term but will also assist in aligning the interests of senior management with those of shareholders.

The structure of executive Directors' remuneration was similar in 2009 to that in 2008 and no significant changes to the existing policy are currently envisaged for 2010. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

When setting the pay of the executive Directors the RemCo takes into account general pay trends in other parts of the Group. By way of example, the executive Directors did not receive a general pay award in 2009 in common with the majority of the operating companies in the Group.

In 2010 the RemCo will be undertaking a comprehensive review of remuneration arrangements for executive Directors and other senior managers across the Group. Subject to the outcome of this review, in the event that there are changes to the remuneration policy, these will be discussed with the Company's major shareholders and their representative bodies. Following those discussions, proposals requiring shareholder approval will be submitted for approval at the 2011 AGM.

The executive Directors are eligible to be members of the Balfour Beatty Pension Fund and the general pensions policy is described below.

## Remuneration and risk

The RemCo has reviewed the relationship between remuneration and risk and is satisfied that the policies operated are appropriate and do not encourage undue risk taking as:

- basic salary levels are targeted at around mid-market levels and are reviewed annually;
- annual bonuses are capped and targeted to ensure that performance incentives and rewards are set at an appropriate level;
- one-third of any annual bonus is deferred in shares for three years;
- Performance Share Plan ("PSP") awards are granted annually with three-year sliding scale performance targets; and
- alignment with shareholders is provided through the use of bonus deferral, Total Shareholder Return ("TSR") for PSP awards and the operation of share ownership guidelines.

## Basic salaries

It is the policy of the RemCo to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. To assist in this, HNBS and PwC provide data and independent advice on remuneration levels in companies considered to be comparable in terms of annual sales, market capitalisation and industry sector. The RemCo sets basic salaries around mid-market levels, but also takes into account its own judgement of the performance of the Group's businesses and the performance of individual Directors. The RemCo intends to continue to use this approach in the foreseeable future.

The basic salaries for the executive Directors are reviewed annually on 1 July. At the review in 2009, the salary for Duncan Magrath was increased to £360,000 (5.9%) and for Andrew McNaughton to £385,000 (4.1%). Following their recent appointments to the Board, these increases are designed to progressively align their salaries over time with the other executive Directors and the external market. The basic salaries of the other three executive Directors were not increased in 2009. The current salaries for all the executive Directors are shown in the table below.

Name of Director	Salary at 1 July 2009
D J Magrath	£360,000
A J McNaughton	£385,000
A L P Rabin	£425,000
I P Tyler	£630,000
P J L Zinkin	£405,000

### Annual incentive plan

Each executive Director participates in an annual incentive plan, under which pre-determined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2009 was 80% of basic salary and the performance indicator chosen was profit before tax, exceptional items and amortisation of intangible assets ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of any bonus achieved is payable in cash, whilst the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met, in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable. The actual profit for the year ended 31 December 2009 resulted in a bonus of 48.3% of basic salary for each executive Director. Details are shown in the table on page 85.

It is currently intended that the annual incentive plan for 2010 will operate in the same way and at the same level as for 2009.

### Long-term incentive scheme

The RemCo believes that performance related long-term incentives which align executives with both business strategy and shareholders' interests are an important component of overall executive remuneration arrangements.

The Company operates a Performance Share Plan (the "PSP") under which conditional awards of shares in the Company are made to executive Directors and other selected operational and functional senior managers. The rules permit a maximum market value of any award of 150% of basic salary, other than in exceptional circumstances, where the limit is 200% of basic salary. For 2009 an award of 135% of salary (reduced from 150% of salary in the previous year) was made to the Chief Executive, with the other executive Directors and selected senior managers receiving conditional awards over shares with a market value of 112.5% of salary (reduced from 125% of salary in the previous year). Consistent with institutional shareholder guidance and following consultation with major shareholders and their representative bodies, award levels were reduced from 2008 levels to reflect the reduction in the earnings per share ("EPS") growth targets.

The awards vest, subject to the achievement of performance conditions, three years after the date of grant, together with shares in lieu of dividends payable. There is no provision for the re-testing of these performance conditions. For the 2009 award, there are two performance conditions, each applying to separate parts of the award.

50% of an award is linked to an adjusted EPS growth target, and will vest as shown in the table below.

EPS growth over three years	Proportion of award vesting
Less than RPI + 9%	Zero
RPI + 9%	25%
RPI + 39%	100%
Between RPI + 9% and RPI + 39%	Between 25% and 100% pro-rata

This represents a reduction in the EPS targets used in previous awards where threshold performance was RPI + 15% and maximum was at RPI + 45%. The target reduction reflects expected economic conditions over the next few years. Growth in EPS will be determined following independent verification of the calculations made internally.

The performance condition attached to the other 50% of an award is linked to TSR performance, measured against a group of UK listed companies operating in comparable markets to the Company. The companies used for the 2009 award were as follows: Aggreko, Atkins (WS), Babcock International, Bunzl, Capita, Carillion, Costain, G4S, Interserve, Keller, Kier, MITIE, Morgan Sindall, Mouchel, Serco, SIG, Travis Perkins, VT Group and Wolseley.

The TSR performance of all companies will be measured over the three year performance period, with the TSR of Balfour Beatty compared to the TSR of the other companies. This part of an award will vest in part if Balfour Beatty's TSR is equivalent to the company whose TSR performance is at the median, with full vesting if Balfour Beatty's TSR is equivalent to, or above, that of the company whose TSR performance is at the upper quartile. The precise scale of vesting is shown in the table below:

Total shareholder return	Proportion of award vesting
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	Between 25% and 100% pro-rata

TSR will be independently calculated and approved by the RemCo.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, which aligns with investors' interests.

It is the intention of the RemCo to make awards under the PSP in 2010. For the TSR element of the award a similar peer group of companies will be used. In view of the continuing challenging economic conditions, and following consultation with the Company's major shareholders and representative bodies, the RemCo plans to reduce the EPS growth targets for the 2010 award to RPI + 6% for threshold performance (25% vesting) and RPI + 36% for maximum (100%) vesting, with the same pro-rating arrangements as before. The reduced individual award levels agreed for the 2009 award would then continue in 2010. The RemCo believes that these targets and awards remain stretching and appropriate given current market conditions and business outlook.

The PSP and other share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

### Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date, with other senior managers at 50% of basic salary. In order to achieve this, those subject to the share ownership guidelines, will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP.

### Share options

No grants of options have been made under the Executive Share Option Scheme 2001 since 31 December 2004 and it remains the intention of the RemCo that no further grants will be made under this scheme to any level of management, other than in exceptional circumstances.

Executive Directors are eligible to participate in a HMRC approved savings-related share option scheme.



## Remuneration report

### Pensions

The Company provides pension benefits to UK employees principally through the Balfour Beatty Pension Fund (the "Fund"), which has both defined benefit ("DB") and defined contribution ("DC") sections. The DB section provides for the build up of pension benefits based on different accrual rates (as determined by job position) and has life cover, disability and spouse/dependants pension arrangements.

A Fund-specific earnings cap has been maintained for those members who were previously subject to the HMRC earnings cap. This cap also applies to members of the DC section of the Fund. A discretionary cash supplement is paid in lieu of pension provision above the earnings cap. The Company is not compensating any member of the Fund (or any other pension scheme operated by the Company) for any additional tax which is payable.

The specific pension arrangements for executive Directors are outlined in more detail in the Directors' pensions section on page 90.

In 2008 the Company announced measures to limit the growth in liabilities in the main DB section of the Fund. Further measures were announced in 2009 that the basic salary used for calculating DB benefits will be frozen with effect from January 2011.

### Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12 months' rolling notice period from the Company and six months' notice on the part of the Director. This policy will continue.

Details of the service contracts of the executive Directors are shown in the table below.

Name of Director	Date of contract	Notice period from Company (months)
D J Magrath	11 April 2008	12
A J McNaughton	15 December 2008	12
A L P Rabin	28 August 2002	12
I P Tyler	22 December 2004	12
P J L Zinkin	16 January 2004	12

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. It is not the RemCo's intention to introduce such provisions. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses and would also give consideration to phased payments where appropriate. All executive Directors are elected for a term of three years and must retire and, if eligible, seek re-election at the AGM in the third calendar year following the year in which they were elected (or last re-elected).

### External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. With approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Ian Tyler was appointed as a non-executive director of VT Group plc on 12 May 2008. The fees received for this role are set out in the notes to the Directors' remuneration table on page 86.

### Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo and is approved by the Board. The Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are elected for a term of three years and must retire and, if eligible, seek re-election at the AGM in the third calendar year following the year in which they were elected (or last re-elected). They are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

The dates of the letters of appointment or last election (or last re-election) of the non-executive Directors serving during the year are shown in the table below.

Name of Director	Date of appointment or last election	Unexpired period at 31 December 2009 (months)
M J Donovan	10 May 2007	5
S L Howard <sup>(i)</sup>	10 May 2007	—
G E H Krossa	14 May 2009	29
S Marshall	14 May 2009	29
G C Roberts <sup>(ii)</sup>	14 May 2009	29
G H Sage	10 May 2007	5
R J W Walvis	10 May 2007	5

#### Notes

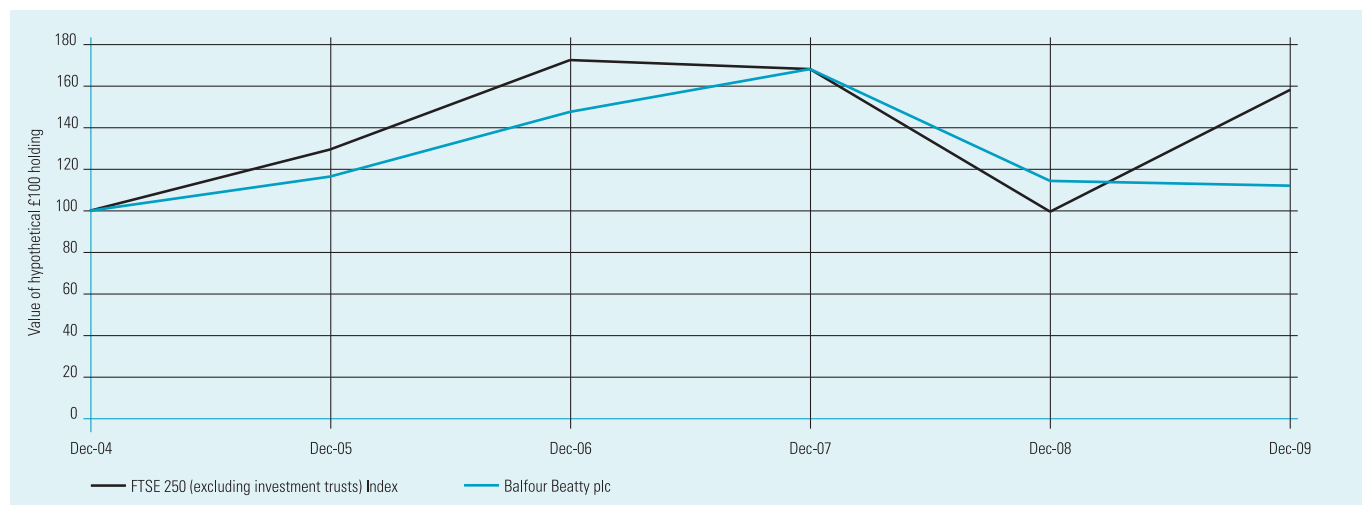
- (i) retired on 17 August 2009.
- (ii) appointed on 1 January 2009.

The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2008. The annual fee level for the non-executive Directors (excluding the Chairman) is set at £48,000 and £240,000 for Steve Marshall as Chairman. The annual fee for chairing Board Committees is £8,000. During the year, the RemCo was chaired by Robert Walvis, the Audit Committee by Steve Marshall up to 4 March 2009, and Graham Roberts for the remainder of the year, and the Business Practices Committee by Stephen Howard up to 17 August 2009 and Mike Donovan for the remainder of the year.

An annual fee of €30,000 is payable to Hubertus Krossa for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.

### Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2009.



As in previous reports, the RemCo has elected to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member.

The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, at the start of the period and have been calculated using 30 trading day average values.

The detailed information about the Directors' remuneration, set out below and on pages 86 to 90 has been audited by the Company's independent auditors, Deloitte LLP.

### Directors' remuneration earned in 2009

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual cash bonus £	Total remuneration 2009 £	Total remuneration 2008 £
M J Donovan	–	51,015	–	–	–	51,015	45,000
S L Howard	–	37,333	–	–	–	37,333	49,000
G E H Krossa	–	74,786	–	–	–	74,786	16,540
D J Magrath	350,000	–	45,580	15,504	115,920	527,004	483,180
S Marshall	–	240,000	–	–	–	240,000	162,273
A J McNaughton	377,500	–	37,750	15,504	123,970	554,724	–
A L P Rabin	425,000	–	74,162	21,267	136,850	657,279	720,255
G C Roberts	–	56,000	–	–	–	56,000	–
G H Sage	–	48,000	–	–	–	48,000	45,000
I P Tyler	630,000	–	74,907	26,129	202,860	933,896	1,040,121
R J W Walvis	–	56,000	–	–	–	56,000	52,500
P J L Zinkin	405,000	–	–	18,156	130,410	553,566	626,390
Former Directors	–	–	–	–	–	–	125,464
<b>Total</b>	<b>2,187,500</b>	<b>563,134</b>	<b>232,399</b>	<b>96,560</b>	<b>710,010</b>	<b>3,789,603</b>	<b>3,365,723</b>

# Remuneration report

## Notes:

- (i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. In practice, the salary paid to Mr McNaughton has been reduced with effect from 1 November 2009 due to the Director's participation in the Company's "SMART Pensions" salary sacrifice arrangement. The amount of reduction corresponds to the Director's contributions to the Balfour Beatty Pension Fund, which are now met directly by the Company as part of this arrangement. Salary sacrifice contributions totalled £1,016 in 2009.
- (ii) Ian Tyler, Duncan Magrath, Andrew McNaughton and Anthony Rabin received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- (iii) The performance target for annual bonus was profit before tax, exceptional items and amortisation of intangible assets ("profit"). The profit for the year ended 31 December 2009 resulted in a bonus of 48.3% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third is deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2013, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2010.
- (iv) Hubertus Krossa received a fee of €30,000 (included above) for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.
- (v) In addition, Ian Tyler received a fee of £45,000 for his services as a non-executive director of VT Group plc.
- (vi) Benefits in kind are calculated in terms of UK taxable values. All executive Directors receive private medical insurance for the Director and his immediate family. Ian Tyler, Anthony Rabin and Peter Zinkin receive a fully expensed car and a fuel card. Duncan Magrath and Andrew McNaughton receive a car allowance of £14,000 p.a.
- (vii) No Director receives any expense allowance.
- (viii) Awards made under the Performance Share Plan in 2006 to Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 28 October 2009 the closing market price was 265.6p and the total values of the awards which vested were £528,662, £149,964, £110,969, £304,633, and £316,820 respectively.
- (ix) Awards made under the Deferred Bonus Plan in 2006 to Ian Tyler, Andrew McNaughton, Anthony Rabin and Peter Zinkin vested during the year. At the date of vesting on 31 March 2009 the closing market price was 328p and the total values of the shares which vested were £69,365, £27,362, £47,960 and £49,886 respectively.
- (x) Andrew McNaughton exercised executive share options on 3 April 2009. The closing market price on the date of exercise was 371.75p and the value realisable on exercise was £29,275.
- (xi) Anthony Rabin and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise were 263.5p and 311.25p respectively and the values realisable on exercise were £836 and £725 respectively.

The interests of the Directors and their immediate families in the ordinary share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

## Directors' interests

Name of Director	Number of ordinary shares	
	At 1 January 2009	At 31 December 2009
M J Donovan	5,000	<b>7,142</b>
G E H Krossa	5,000	<b>7,142</b>
D J Magrath	16,000	<b>62,446</b>
S Marshall	5,000	<b>7,142</b>
A J McNaughton	–	<b>45,315</b>
A L P Rabin	142,172	<b>257,468</b>
G C Roberts	–	<b>7,142</b>
G H Sage	5,000	<b>7,142</b>
I P Tyler	154,051	<b>315,720</b>
R J W Walvis	10,000	<b>14,285</b>
P J L Zinkin	148,686	<b>262,596</b>

## Notes:

- (i) All interests at the dates shown are beneficial and are in respect of 50p ordinary shares in Balfour Beatty plc. There were no changes between 31 December 2009 and 3 March 2010.
- (ii) Peter Zinkin was also interested at 1 January 2009 and 31 December 2009 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.
- (iii) Robert Walvis was also interested at 31 December 2009 in 938 ordinary shares in Balfour Beatty held by the Craven Arms Investment Club, of which he is a member.

## Directors' long-term incentives: the Performance Share Plan

Name of Director	Date awarded	Maximum number of shares subject to award					At 31 December 2009	Exercisable from
		At 1 January 2009	Awarded during the year	Lapsed during the year	Adjustment for rights issue	Vested during the year		
D J Magrath	13 June 2006	64,847	–	19,714	6,693	51,826	–	June 2009
	17 April 2007	43,125	–	–	6,393	–	<b>49,518</b>	March 2010
	15 April 2008	94,618	–	–	14,028	–	<b>108,646</b>	April 2011
	15 April 2009	–	108,050	–	16,019	–	<b>124,069</b>	April 2012
A J McNaughton	13 June 2006	47,986	–	14,588	4,953	38,351	–	June 2009
	17 April 2007	67,384	–	–	9,990	–	<b>77,374</b>	March 2010
	15 April 2008	79,312	–	–	11,758	–	<b>91,070</b>	April 2011
	15 April 2009	–	117,584	–	17,433	–	<b>135,017</b>	April 2012
A L P Rabin	13 June 2006	131,721	–	40,043	13,595	105,273	–	June 2009
	17 April 2007	90,269	–	–	13,383	–	<b>103,652</b>	March 2010
	15 April 2008	105,750	–	–	15,678	–	<b>121,428</b>	April 2011
	15 April 2009	–	135,063	–	20,024	–	<b>155,087</b>	April 2012
I P Tyler	13 June 2006	228,586	–	69,491	23,590	182,685	–	June 2009
	17 April 2007	157,755	–	–	23,388	–	<b>181,143</b>	March 2010
	15 April 2008	193,690	–	–	28,716	–	<b>222,406</b>	April 2011
	15 April 2009	–	240,254	–	35,620	–	<b>275,874</b>	April 2012
P J L Zinkin	13 June 2006	136,989	–	41,645	14,137	109,481	–	June 2009
	17 April 2007	90,269	–	–	13,383	–	<b>103,652</b>	March 2010
	15 April 2008	105,750	–	–	15,678	–	<b>121,428</b>	April 2011
	15 April 2009	–	128,707	–	19,082	–	<b>147,789</b>	April 2012

## Notes:

- (i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- (ii) For the awards made in April 2007, April 2008 and April 2009, the performance periods are the three years ending 31 December 2009, 31 December 2010 and 31 December 2011 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 45% over the performance period for the April 2007 and April 2008 awards and 39% for the April 2009 award. If EPS growth exceeds RPI by 15% for the April 2007 and April 2008 awards and 9% for the April 2009 award, then 25% of this part of the award will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 15% or 9% as appropriate. The other 50% of each award is subject to a total shareholder return ("TSR") target under which the TSR of the Company is compared to that of a comparator group of similar companies listed in the UK at the start of the performance period. The maximum number of shares subject to this performance condition will only vest if the Company's TSR is at the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.
- (iii) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates, which was used for calculating the number of awards granted, was 308.417p for the 2006 award, 491.583p for the 2007 award, 449.17p for the 2008 award, and 354p for the 2009 award. The closing middle market price of ordinary shares on the date of the awards was 301.25p, 490.75p, 450p and 352.25p respectively.
- (iv) The performance period for the awards made in April 2007 was completed on 31 December 2009. The growth in EPS for this period (with adjustments in relation to the rights issue and the acquisition of Parsons Brinckerhoff for EPS in 2006 and 2009) exceeded RPI by more than 45%, the level required for maximum vesting. The Company's TSR for this period ranked just below the median of the comparator group. The combined effect of these performance measures is that 50% of each participant's conditional award will vest on 26 March 2010. This date was brought forward from the original vesting date of 17 April 2010. Each participant will also receive shares equal in value to the dividends which would have been payable on the shares which vest.
- (v) The performance period for the awards made in June 2006 was completed on 31 December 2008. The growth in EPS for this period exceeded RPI by more than 45%, the level required for maximum vesting. The Company's TSR for this period ranked between sixth and seventh of the 14 remaining companies in the comparator group. The combined effect of these performance measures was that 69.6% of each participant's conditional award vested on 28 October 2009. Ian Tyler, Duncan Magrath, Andrew McNaughton, Anthony Rabin and Peter Zinkin also received 11,458, 3,246, 2,401, 6,599 and 6,866 shares respectively, regarding dividends which would have been payable on the shares which vested, and payments of £13,019, £3,693, £2,733, £7,502 and £7,802 respectively regarding the dividend for July 2009 which was settled in cash. The closing middle market price of ordinary shares on the vesting date was 265.6p. The monetary values of the PSP award which vested in 2009 are disclosed in Note (viii) to the Directors remuneration table.
- (vi) PSP awards held at the time of the 2009 rights issue were adjusted by a factor of 1.14826 to recognise the bonus element of the rights issue.



## Remuneration report

## Directors' Deferred Bonus Plan awards

Name of Director	Date of initial award	Number of shares awarded								Vesting date
		At 1 January 2009	Awarded during the year	Awarded during the year in respect of dividends		Lapsed during the year	Adjustment for rights issue	Vested during the year	At 31 December 2009	
				6 July 2009	10 December 2009					
D J Magrath	30 March 2007	8,064	—	207	174	—	1,223	—	<b>9,668</b>	30 March 2010
	31 March 2008	12,245	—	314	265	—	1,860	—	<b>14,684</b>	31 March 2011
	31 March 2009	—	24,785	636	536	—	3,768	—	<b>29,725</b>	31 March 2012
A J McNaughton	31 March 2006	8,342	—	—	—	—	—	8,342	—	31 March 2009
	30 March 2007	8,646	—	222	187	—	1,312	—	<b>10,367</b>	30 March 2010
	31 March 2008	15,685	—	402	339	—	2,383	—	<b>18,809</b>	31 March 2011
	31 March 2009	—	22,234	571	481	—	3,380	—	<b>26,666</b>	31 March 2012
A L P Rabin	31 March 2006	14,622	—	—	—	—	—	14,622	—	31 March 2009
	30 March 2007	17,313	—	444	374	—	2,629	—	<b>20,760</b>	30 March 2010
	31 March 2008	21,950	—	563	475	—	3,336	—	<b>26,324</b>	31 March 2011
	31 March 2009	—	30,982	795	670	—	4,710	—	<b>37,157</b>	31 March 2012
I P Tyler	31 March 2006	21,148	—	—	—	—	—	21,148	—	31 March 2009
	30 March 2007	25,214	—	647	546	—	3,830	—	<b>30,237</b>	30 March 2010
	31 March 2008	33,504	—	860	725	—	5,092	—	<b>40,181</b>	31 March 2011
	31 March 2009	—	45,926	1,179	994	—	6,982	—	<b>55,081</b>	31 March 2012
P J L Zinkin	31 March 2006	15,209	—	—	—	—	—	15,209	—	31 March 2009
	30 March 2007	17,314	—	444	374	—	2,627	—	<b>20,759</b>	30 March 2010
	31 March 2008	21,950	—	563	475	—	3,336	—	<b>26,324</b>	31 March 2011
	31 March 2009	—	29,524	758	639	—	4,489	—	<b>35,410</b>	31 March 2012

## Notes:

- (i) All awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- (ii) The awards made in 2007, 2008 and 2009 will vest on 30 March 2010, 31 March 2011 and 31 March 2012 respectively, providing the Director is still employed by the Company at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
- (iii) The awards made in 2006 vested on 31 March 2009. The closing middle market price of ordinary shares on the vesting date was 328p.
- (iv) The shares awarded on 31 March 2006, 30 March 2007, 31 March 2008 and 31 March 2009 were purchased at average prices of 374.641p, 474.989p, 476.454p, and 365.801p respectively.
- (v) The shares awarded on 6 July 2009 and 10 December 2009 in lieu of dividends payable were allocated at average prices of 299.75p and 260.492p respectively.
- (vi) DBP awards held at the time of the 2009 rights issue were adjusted by a factor of 1.14826 to recognise the bonus element of the rights issue.

## Directors' Savings-Related Share Option Scheme grants

Name of Director	Date granted	Number of options						Exercise price	Exercisable from	Exercisable to
		At 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Adjustment for rights issue	At 31 December 2009			
D J Magrath	2 May 2007	1,136	–	–	–	168	<b>1,304</b>	338.7p	July 2010	December 2010
	7 May 2008	935	–	–	–	138	<b>1,073</b>	315.2p	July 2013	December 2013
	18 May 2009	–	547	–	–	81	<b>628</b>	249.0p	July 2014	December 2014
A L P Rabin	5 May 2004	903	–	1,036	–	133	–	182.8p	July 2009	December 2009
	4 May 2005	1,031	–	–	–	152	<b>1,183</b>	217.7p	July 2010	December 2010
	3 May 2006	971	–	–	–	143	<b>1,114</b>	265.6p	July 2011	December 2011
	2 May 2007	993	–	–	–	147	<b>1,140</b>	338.7p	July 2012	December 2012
	7 May 2008	321	–	–	–	47	<b>368</b>	315.2p	July 2011	December 2011
	18 May 2009	–	–	–	–	–	–	249.0p	–	–
I P Tyler	2 May 2007	825	–	–	–	122	<b>947</b>	338.7p	July 2010	December 2010
	7 May 2008	664	–	–	–	98	<b>762</b>	315.2p	July 2011	December 2011
	18 May 2009	–	383	–	–	56	<b>439</b>	249.0p	July 2012	December 2012
P J L Zinkin	5 May 2004	716	–	716	–	–	–	182.8p	July 2009	December 2009
	4 May 2005	687	–	–	–	101	<b>788</b>	217.7p	July 2010	December 2010
	3 May 2006	717	–	–	–	106	<b>823</b>	265.6p	July 2011	December 2011
	2 May 2007	1,178	–	–	–	174	<b>1,352</b>	338.7p	July 2012	December 2012
	7 May 2008	701	–	–	–	103	<b>804</b>	315.2p	July 2013	December 2013
	18 May 2009	–	319	–	–	47	<b>366</b>	249.0p	July 2012	December 2012

## Notes:

- All options are granted under the savings-related share option scheme, for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- The closing market price of the Company's ordinary shares on 31 December 2009 was 258.5p. During the year the highest and lowest closing market prices were 342.69p and 244.2p respectively, adjusted for the discount element of the rights issue.
- Both the number of and exercise price of savings-related share options held at the time of the 2009 rights issue were adjusted by a factor of 1.14826 to recognise the bonus element of the rights issue, in accordance with the HMRC approved standard formula.

## Directors' Executive Share Option Scheme grants

Name of Director	Date granted	Number of options						Exercise price	Exercisable from	Exercisable to
		At 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Adjustment for rights issue	At 31 December 2009			
A J McNaughton	13 April 2000	10,000	–	10,000	–	–	–	68.8p	April 2003	April 2010
	7 June 2001	10,000	–	–	–	1,482	<b>11,482</b>	174.1p	June 2004	June 2011
	17 April 2002	20,000	–	–	–	2,964	<b>22,964</b>	207.2p	April 2005	April 2012
	16 April 2003	15,000	–	–	–	2,223	<b>17,223</b>	150.6p	April 2006	April 2013
	19 April 2004	15,000	–	–	–	2,223	<b>17,223</b>	227.3p	April 2007	April 2014

## Notes:

- All options are granted under the executive share option scheme for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- The closing market price of the Company's ordinary shares on 31 December 2009 was 258.5p. During the year the highest and lowest closing market prices were 342.69p and 244.2p respectively (as adjusted for the rights issue).
- Both the number of and exercise price of executive share options held at the time of the 2009 rights issue were adjusted by a factor of 1.14826 to recognise the bonus element of the rights issue, in accordance with the HMRC approved standard formula.

# Remuneration report

## Directors' pensions

Executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The Fund provides for a pension at a normal retirement age of 62 for pension purposes and each Director pays an annual contribution equal to 5% of contributory salary except where, in the case of Andrew McNaughton, the Director participates in SMART Pensions, as outlined in note (ii) to the second table below. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed with one of the changes being to no longer use the earnings cap when determining the maximum permissible benefits. However, the Balfour Beatty Pension Fund has retained a Fund specific earnings cap for pension purposes. The salaries of Duncan Magrath, Andrew McNaughton, Anthony Rabin and Ian Tyler were subject to the Fund specific earnings cap for pension purposes and details of the Company's contributions to additional arrangements for them are shown in the Directors' remuneration table on page 85.

The table below sets out the accrued deferred pension which would be paid annually from the Fund at normal retirement age based on each executive Director's service to 31 December 2009 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2009 Years	Pensionable service at 31 December 2009 Years	Accrued deferred pension at 31 December 2008 £pa	Increase in accrued deferred pension during the year		Accrued deferred pension at 31 December 2009 £pa	Transfer value corresponding to increase in excess of inflation at 31 December 2009 less Director's contributions (Note i) £
				Inflation £pa	Increase in excess of inflation £pa		
D J Magrath	45	3	11,073	553	3,979	15,605	39,703
A J McNaughton	46	12	29,019	1,451	3,099	33,569	30,997
A L P Rabin (see note ii)	54	16	59,599	2,980	3,793	66,372	55,836
I P Tyler	49	13	37,671	1,884	3,060	42,615	34,853
P J L Zinkin	56	28	203,611	10,181	4,199	217,991	56,157

Notes:

- (i) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period, in accordance with the transfer value regulations, less the Director's contributions.
- (ii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

The table below sets out the transfer value at 31 December 2009 of each executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the Fund had the Directors left service on the dates shown and reflect the age of the Director, his period of membership of the Fund and his pensionable salary.

Name of Director	Age at 31 December 2009 Years	Pensionable service at 31 December 2009 Years	Transfer value at 31 December 2008 (Note i) £	Contributions made by Director during the year (Note ii) £	Increase in transfer value during the year less Director's contributions (Note iii) £	Transfer value at 31 December 2009 (Note i) £
A J McNaughton	46	12	244,306	6,333	133,163	383,802
A L P Rabin (note iv)	54	16	792,460	6,333	261,628	1,060,421
I P Tyler	49	13	388,860	6,333	169,108	564,301
P J L Zinkin	56	28	3,025,680	21,005	743,912	3,790,597

Notes:

- (i) The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer value basis then in force.
- (ii) Andrew McNaughton has participated in the Company's "SMART Pensions" salary sacrifice arrangement since 1 November 2009. Andrew McNaughton's contributions figure includes £1,016 paid by the Company via this arrangement.
- (iii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period.
- (iv) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

## Remuneration report

By order of the Board

### R J W Walvis

Senior Independent Director and chairman of the Remuneration Committee

3 March 2010

# Independent auditors' report to the members of Balfour Beatty plc

We have audited the financial statements of Balfour Beatty plc for the year ended 31 December 2009 which comprise the Group and Company statements of financial performance, the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity, the Group and Company statements of financial position, the Group and Company statements of cash flows and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2009 and of the Group's and the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



**Mark Beddy (Senior Statutory Auditor)**

## For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors  
London, United Kingdom

3 March 2010



## Group statement of financial performance

For the year ended 31 December 2009

	Notes	2009			2008		
		Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total £m
Revenue including share of joint ventures and associates		<b>10,339</b>	–	<b>10,339</b>	9,486	–	9,486
Share of revenue of joint ventures and associates	15	<b>(1,385)</b>	–	<b>(1,385)</b>	(1,225)	–	(1,225)
<b>Group revenue</b>	2	<b>8,954</b>	–	<b>8,954</b>	8,261	–	8,261
Cost of sales		<b>(8,173)</b>	–	<b>(8,173)</b>	(7,628)	–	(7,628)
<b>Gross profit</b>		<b>781</b>	–	<b>781</b>	633	–	633
Net operating expenses							
– amortisation of intangible assets		–	<b>(48)</b>	<b>(48)</b>	–	(27)	(27)
– other		<b>(582)</b>	<b>63</b>	<b>(519)</b>	(478)	51	(427)
<b>Group operating profit</b>		<b>199</b>	<b>15</b>	<b>214</b>	155	24	179
Share of results of joint ventures and associates	15	<b>83</b>	–	<b>83</b>	75	(3)	72
<b>Profit from operations</b>	4	<b>282</b>	<b>15</b>	<b>297</b>	230	21	251
Investment income	6	<b>32</b>	–	<b>32</b>	43	–	43
Finance costs	7	<b>(47)</b>	<b>(15)</b>	<b>(62)</b>	(24)	–	(24)
<b>Profit before taxation</b>		<b>267</b>	–	<b>267</b>	249	21	270
Taxation	9	<b>(69)</b>	<b>15</b>	<b>(54)</b>	(66)	(8)	(74)
<b>Profit for the year attributable to equity shareholders</b>		<b>198</b>	<b>15</b>	<b>213</b>	183	13	196

\* and amortisation of intangible assets (Note 13).

	Notes	2009 <sup>†</sup> pence	2008 <sup>†</sup> pence
Basic earnings per ordinary share	10	<b>37.4</b>	37.4
Diluted earnings per ordinary share	10	<b>37.3</b>	37.2
Dividends per ordinary share proposed for the year	11	<b>12.0</b>	11.1

<sup>†</sup> Per share numbers have been restated for the bonus element of the 2009 rights issue (Note 28.2).

## Group statement of comprehensive income

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
<b>Profit for the year</b>		<b>213</b>	196
<b>Other comprehensive (expense)/income for the year</b>			
Actuarial losses on retirement benefit obligations		<b>(350)</b>	(76)
Fair value revaluations – PPP financial assets		<b>(80)</b>	102
– PPP cash flow hedges		<b>5</b>	(107)
– other cash flow hedges		<b>(2)</b>	(1)
Changes in fair value of net investment hedges		<b>18</b>	(105)
Currency translation differences		<b>(77)</b>	217
Tax relating to components of other comprehensive income		<b>120</b>	25
<b>Total other comprehensive (expense)/income for the year</b>		<b>(366)</b>	55
<b>Total comprehensive (expense)/income for the year attributable to equity shareholders</b>	28.1	<b>(153)</b>	251

## Group statement of changes in equity

For the year ended 31 December 2009

	Notes	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves (Note 28.1) £m	(Accumulated losses)/retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2008		216	52	16	164	178	9	(152)	–	483
Total comprehensive income for the year	28.1	–	–	–	–	105	66	79	1	251
Ordinary dividends		–	–	–	–	–	–	(54)	–	(54)
Joint ventures' and associates' dividends		–	–	–	–	(53)	–	53	–	–
Issue of ordinary shares		23	2	–	–	–	161	–	–	186
Movements relating to share-based payments		–	–	–	–	–	4	(8)	–	(4)
Non-controlling interests acquired		–	–	–	–	–	–	–	3	3
Transfers		–	–	–	(25)	–	(161)	186	–	–
At 31 December 2008		239	54	16	139	230	79	104	4	865
Total comprehensive income/(expense) for the year	28.1	–	–	–	–	9	(41)	(121)	–	(153)
Ordinary dividends		–	–	–	–	–	–	(63)	–	(63)
Joint ventures' and associates' dividends		–	–	–	–	(75)	–	75	–	–
Issue of ordinary shares		104	3	–	–	–	252	–	–	359
Rights issue expenses		–	–	–	–	–	–	(3)	–	(3)
Movements relating to share-based payments		–	–	–	–	–	1	–	–	1
Transfers		–	–	–	(107)	–	(3)	110	–	–
At 31 December 2009	28.1	343	57	16	32	164	288	102	4	1,006

## Company statement of financial performance

For the year ended 31 December 2009

	Notes	2009			2008		
		Before exceptional items £m	Exceptional items (Note 8) £m	Total £m	Before exceptional items £m	Exceptional items (Note 8) £m	Total £m
Revenue	2	189	–	189	28	–	28
Net operating expenses		(9)	2	(7)	(14)	1	(13)
Profit from operations		180	2	182	14	1	15
Investment income	6	4	–	4	24	–	24
Finance costs	7	(36)	–	(36)	(83)	–	(83)
Profit/(Loss) before taxation		148	2	150	(45)	1	(44)
Taxation	9	18	(1)	17	17	(1)	16
Profit/(Loss) for the year attributable to equity shareholders		166	1	167	(28)	–	(28)

## Company statement of comprehensive income

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit/(Loss) for the year		167	(28)
Other comprehensive income/(expense) for the year			
Actuarial losses on retirement benefit obligations		(16)	(1)
Tax relating to components of other comprehensive income		5	(1)
Total other comprehensive expense for the year		(11)	(2)
Total comprehensive income/(expense) for the year attributable to equity shareholders	28.2	156	(30)

## Company statement of changes in equity

For the year ended 31 December 2009

	Notes	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves (Note 28.2) £m	Retained profits £m	Total £m
At 1 January 2008		216	52	16	164	48	185	681
Total comprehensive expense for the year	28.2	–	–	–	–	–	(30)	(30)
Ordinary dividends		–	–	–	–	–	(54)	(54)
Issue of ordinary shares		23	2	–	–	161	–	186
Movements relating to share-based payments		–	–	–	–	16	(11)	5
Transfers		–	–	–	(25)	(161)	186	–
At 31 December 2008		239	54	16	139	64	276	788
Total comprehensive income for the year	28.2	–	–	–	–	–	156	156
Ordinary dividends		–	–	–	–	–	(63)	(63)
Issue of ordinary shares		104	3	–	–	252	–	359
Rights issue expenses		–	–	–	–	–	(3)	(3)
Movements relating to share-based payments		–	–	–	–	4	(3)	1
Transfers		–	–	–	(107)	(3)	110	–
At 31 December 2009	28.2	343	57	16	32	317	473	1,238

# Statements of financial position

At 31 December 2009

	Notes	Group			Company	
		2009 £m	2008 £m	2007 £m	2009 £m	2008 £m
<b>Non-current assets</b>						
Intangible assets – goodwill	12	<b>1,131</b>	975	694	–	–
– other	13	<b>298</b>	223	59	–	–
Property, plant and equipment	14	<b>315</b>	296	215	<b>1</b>	1
Investments in joint ventures and associates	15	<b>458</b>	469	381	–	–
Investments	16	<b>83</b>	55	57	<b>2,095</b>	1,738
PPP financial assets	17	<b>260</b>	151	62	–	–
Deferred tax assets	24	<b>183</b>	132	125	<b>4</b>	–
Derivative financial instruments	20	<b>1</b>	3	3	<b>1</b>	3
Trade and other receivables	21	<b>89</b>	74	77	<b>31</b>	31
		<b>2,818</b>	2,378	1,673	<b>2,132</b>	1,773
<b>Current assets</b>						
Inventories	18	<b>100</b>	125	72	–	–
Due from customers for contract work	19	<b>524</b>	383	338	–	–
Derivative financial instruments	20	–	2	1	<b>1</b>	68
Trade and other receivables	21	<b>1,329</b>	1,193	881	<b>1,057</b>	587
Current tax assets		<b>5</b>	–	–	–	23
Cash and cash equivalents – PPP subsidiaries	23	<b>10</b>	2	3	–	–
– other	23	<b>608</b>	461	391	<b>143</b>	50
		<b>2,576</b>	2,166	1,686	<b>1,201</b>	728
<b>Total assets</b>		<b>5,394</b>	4,544	3,359	<b>3,333</b>	2,501
<b>Current liabilities</b>						
Trade and other payables	22	<b>(2,412)</b>	(2,168)	(1,718)	<b>(1,898)</b>	(1,460)
Due to customers for contract work	19	<b>(581)</b>	(540)	(415)	–	–
Derivative financial instruments	20	<b>(1)</b>	(66)	(6)	<b>(1)</b>	(68)
Current tax liabilities		<b>(8)</b>	(23)	(7)	<b>(2)</b>	–
Borrowings – PPP non-recourse loans	23	<b>(19)</b>	–	(3)	–	–
– other	23	<b>(23)</b>	(12)	(16)	<b>(53)</b>	(51)
		<b>(3,044)</b>	(2,809)	(2,165)	<b>(1,954)</b>	(1,579)
<b>Non-current liabilities</b>						
Trade and other payables	22	<b>(163)</b>	(152)	(135)	<b>(25)</b>	(25)
Derivative financial instruments	20	<b>(24)</b>	(40)	(6)	<b>(1)</b>	(3)
Borrowings – PPP non-recourse loans	23	<b>(239)</b>	(145)	(61)	–	–
– other	23	<b>(13)</b>	(9)	(1)	–	–
Deferred tax liabilities	24	<b>(9)</b>	(10)	(7)	–	(1)
Liability component of preference shares	27	<b>(88)</b>	(87)	(87)	<b>(88)</b>	(87)
Retirement benefit obligations	25	<b>(586)</b>	(261)	(286)	<b>(18)</b>	(7)
Provisions	26	<b>(222)</b>	(166)	(128)	<b>(9)</b>	(11)
		<b>(1,344)</b>	(870)	(711)	<b>(141)</b>	(134)
<b>Total liabilities</b>		<b>(4,388)</b>	(3,679)	(2,876)	<b>(2,095)</b>	(1,713)
<b>Net assets</b>		<b>1,006</b>	865	483	<b>1,238</b>	788
<b>Equity</b>						
Called-up share capital	27	<b>343</b>	239	216	<b>343</b>	239
Share premium account	28	<b>57</b>	54	52	<b>57</b>	54
Equity component of preference shares	28	<b>16</b>	16	16	<b>16</b>	16
Special reserve	28	<b>32</b>	139	164	<b>32</b>	139
Share of joint ventures' and associates' reserves	28	<b>164</b>	230	178	–	–
Other reserves	28	<b>288</b>	79	9	<b>317</b>	64
Retained profits/(accumulated losses)	28	<b>102</b>	104	(152)	<b>473</b>	276
<b>Equity attributable to equity holders of the parent</b>		<b>1,002</b>	861	483	<b>1,238</b>	788
Non-controlling interests	28	<b>4</b>	4	–	–	–
<b>Total equity</b>		<b>1,006</b>	865	483	<b>1,238</b>	788

On behalf of the Board

**Steve Marshall**  
Director

**Duncan Magrath**  
Director

3 March 2010



# Statements of cash flows

For the year ended 31 December 2009

	Notes	Group		Company	
		2009 £m	2008 £m	2009 £m	2008 £m
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	35.1	<b>294</b>	297	<b>14</b>	(9)
Income taxes paid		<b>(31)</b>	(18)	<b>(14)</b>	(1)
<b>Net cash from/(used in) operating activities</b>		<b>263</b>	279	<b>–</b>	(10)
<b>Cash flows from investing activities</b>					
Dividends received from joint ventures and associates		<b>75</b>	53	<b>39</b>	28
Dividends received from subsidiaries		<b>–</b>	–	<b>150</b>	–
Interest received		<b>17</b>	27	<b>5</b>	24
Acquisition of businesses, net of cash and cash equivalents acquired	29	<b>(300)</b>	(302)	<b>–</b>	–
Purchase of intangible assets		<b>(3)</b>	–	<b>–</b>	–
Purchase of property, plant and equipment		<b>(71)</b>	(93)	<b>(1)</b>	(1)
Investment in and loans made to joint ventures and associates		<b>(50)</b>	(9)	<b>1</b>	–
Investment in subsidiaries		<b>–</b>	–	<b>(355)</b>	(64)
Investment in PPP financial assets		<b>(95)</b>	(81)	<b>–</b>	–
Settlement of financial derivatives		<b>(57)</b>	(48)	<b>–</b>	–
Disposal of property, plant and equipment		<b>19</b>	17	<b>–</b>	–
Disposal of investments		<b>16</b>	2	<b>–</b>	–
<b>Net cash used in investing activities</b>		<b>(449)</b>	(434)	<b>(161)</b>	(13)
<b>Cash flows from financing activities</b>					
Proceeds from issue of ordinary shares		<b>356</b>	186	<b>356</b>	186
Purchase of ordinary shares		<b>(6)</b>	(13)	<b>(6)</b>	(13)
Proceeds from new loans		<b>121</b>	81	<b>–</b>	–
Repayment of loans		<b>(4)</b>	(18)	<b>–</b>	–
Repayment of finance leases		<b>(3)</b>	(2)	<b>–</b>	–
Ordinary dividends paid		<b>(63)</b>	(54)	<b>(63)</b>	(54)
Interest paid		<b>(19)</b>	(12)	<b>(24)</b>	(71)
Preference dividends paid		<b>(11)</b>	(11)	<b>(11)</b>	(11)
<b>Net cash from financing activities</b>		<b>371</b>	157	<b>252</b>	37
<b>Net increase in cash and cash equivalents</b>		<b>185</b>	2	<b>91</b>	14
Effects of exchange rate changes		<b>(30)</b>	72	<b>–</b>	–
Cash and cash equivalents at beginning of year		<b>453</b>	379	<b>(1)</b>	(15)
<b>Cash and cash equivalents at end of year</b>	35.2	<b>608</b>	453	<b>90</b>	(1)

# Notes to the accounts

## 1 Principal accounting policies

### 1.1 Basis of accounting

The annual financial statements have been prepared on a going concern basis as discussed on page 66 and in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee and adopted by the European Union relevant to its operations and effective for accounting periods beginning on 1 January 2009.

The financial statements have been prepared under the historical cost convention, except as described under Note 1.19. The functional and presentational currency of the Company, and the presentational currency of the Group, is sterling. The Group did not have any discontinued operations in the current or preceding year.

### Changes in accounting policies

The adoption of the following standards has resulted either in changes to the presentation of the financial statements or to the Group's accounting policies in the current period:

- IAS 1 Presentation of Financial Statements (revised 2007);
- IAS 27 Consolidated and Separate Financial Statements (revised 2008);
- IFRS 3 Business Combinations (revised 2008);
- IFRS 8 Operating Segments; and
- Amendments to IFRS 7 Improving Disclosures about Financial Instruments.

IAS 1 (revised 2007) requires the presentation of a statement of changes in equity in the primary statements. This information was previously disclosed in the notes to the financial statements. In addition the Group has elected to present a separate statement of financial performance and statement of comprehensive income. The revised standard also suggests certain changes in terminology which have been adopted in these financial statements. The income statement has been renamed statement of financial performance, the balance sheet has been renamed statement of financial position and the statement of recognised income and expense has been renamed statement of comprehensive income.

The revisions to IAS 27 (2008) and IFRS 3 (2008) are related. The Group has decided to adopt this set of revised standards early. The main change in accounting policy resulting from the revised standards is to expense acquisition costs in the statement of financial performance when incurred. As a result, the Group has expensed £16m of acquisition costs in the year that previously would have been capitalised within goodwill. Non-controlling shareholder interests previously referred to as minority interests are now referred to as non-controlling interests.

IFRS 8 has replaced IAS 14 Segment Reporting in the year. IFRS 8 requires that the Group's operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to assess the performance of the Group's components and to allocate resources to them. IFRS 8 further requires that geographical disclosure for revenues from external customers focus on the Group's country of domicile and any other material country; as a result the geographical tables presented in Note 3 have been re-presented. The new standard also requires certain disclosures about major customers which have been included in Note 3. Refer to Note 1.5 and Note 3 for further details.

The amendments to IFRS 7 have had no effect on the accounting policies or results of the Group, however they have resulted in additional disclosures in Note 20 for the method and valuation technique used in determining the fair value of each class of financial assets and financial liabilities.

IAS 23 Borrowing Costs (revised 2007); Improvements to IFRSs issued May 2008; IFRIC 11 IFRS 2 – Group and Treasury Share Transactions; IFRIC 13 Customer Loyalty Programmes; IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and amendments to: IFRS 2 Share-based Payment: Vesting Conditions and Cancellations; IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation; IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate; IAS 39 and IFRS 7 Reclassification of Financial Assets: Effective Date and Transition; and IFRIC 9 and IAS 39 Embedded Derivatives also came into effect and were adopted in the current period but had no material effect on the accounting policies or disclosures in these financial statements.

Following the acquisition of Parsons Brinckerhoff Inc the Group's segments have been changed as described in Note 1.5. The statement of financial position includes comparative disclosures for 2007. These are required by IAS 1 (revised 2007) when there has been a restatement of items in the financial statements. The changes in the Group's segmentation fall within this requirement. None of the information contained in the 2007 statement of financial position has been restated. Reference should be made to the Directors' report and accounts 2008 for 2007 comparative information not presented in these financial statements.

### Accounting standards not yet adopted by the Group

The following accounting standards, interpretations and amendments have been released by the IASB but have either not been adopted by the European Union or are not yet effective in the European Union: IFRS 9 Financial Instruments; IAS 24 Related Party Disclosures (revised 2009); IFRS 1 First-time Adoption of International Financial Reporting Standards (revised 2008); Improvements to IFRSs issued April 2009; IFRIC 12 Service Concession Arrangements; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 16 Hedges of a Net Investment in a Foreign Operation; IFRIC 17 Distributions of Non-Cash Assets to Owners; IFRIC 18 Transfers of Assets from Customers; IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items; Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions; Amendments to IFRS 1 Additional Exemptions for First-time Adopters; Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement; Amendments to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues; and Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Except for IFRS 9 and IFRIC 12, none of these standards, interpretations or amendments are expected to have an effect on the accounting policies or disclosures within the financial statements of the Group.

IFRIC 12 is not expected to have a material effect on the Group's financial statements. It relates to the accounting for the Group's PPP concessions and would require certain assets constructed by concessions currently accounted for as "available-for-sale" financial assets to be accounted for as intangible assets. IFRIC 12 has been endorsed but was not yet required to be adopted for use in the European Union in 2009. The Group will adopt IFRIC 12 in 2010.

IFRS 9 Financial Instruments is expected to replace IAS 39 Financial Instruments: Recognition and Measurement effective from 2013, subject to EU endorsement. IFRS 9 in issue as at 3 March 2010 only covers the classification and measurement of financial assets. New requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. The requirements of IFRS 9 in issue as at 3 March 2010 would result in the Group's PPP financial assets being reclassified from "available-for-sale", which is a category that will no longer be available under the new standard, to a debt instrument measured either at amortised cost or at fair value through profit or loss. As a result, movements in the fair value of PPP financial assets would no longer be recognised in other comprehensive income. Retrospective application of this requirement would result in the closing balance of fair value movements recognised in PPP financial asset reserves and share of joint ventures' and associates' reserves of £71m relating to fair value movements of PPP financial assets currently classified as available-for-sale being transferred from PPP financial asset reserves and share of joint ventures' and associates' reserves to retained earnings.

## Notes to the accounts

### 1 Principal accounting policies continued

#### 1.2 Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiaries, together with the Group's share of the results of joint ventures and associates drawn up to 31 December each year.

##### a) Subsidiaries

Subsidiaries are entities over which the Group has control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold in the year are consolidated from the effective date of acquisition or to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the statement of financial performance in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair value of the assets and liabilities recognised.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### b) Joint ventures and associates

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Associates are entities over which the Group is in a position to exercise significant influence, but does not control, or exercise joint control through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of joint ventures and associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. The equity return from the military housing joint ventures of Balfour Beatty Communities is contractually limited to a maximum pre-agreed level of return, beyond which Balfour Beatty Communities does not share in any further return.

Any excess of the fair value of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate or joint venture entity at the date of acquisition is recognised as goodwill. Any deficiency of the fair value of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the joint venture or associate at the date of acquisition (discount on acquisition) is credited to the statement of financial performance in the period of acquisition.

Investments in joint ventures and associates are initially carried in the statement of financial position at cost (including goodwill arising on acquisition) and adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture or associate, less any impairment in the value of individual investments. Losses of joint ventures and associates in excess of the Group's interest in those joint ventures and associates are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures and associates.

Unrealised gains and losses on transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

##### c) Jointly controlled operations

The Group's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the statement of financial performance and statement of financial position.

#### 1.3 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Significant exchange rates used in the preparation of these financial statements are shown in Note 1.28.

For the purpose of presenting consolidated financial statements, the results of foreign subsidiaries, associates and joint venture entities are translated at average rates of exchange for the year, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Assets and liabilities are translated at the rates of exchange prevailing at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of exchange at the reporting date. Currency translation differences arising are transferred to the Group's foreign currency translation reserve. These currency translation differences are recognised in the statement of financial performance on disposal of the underlying investment.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward exchange contracts. See Note 1.19(b) for details of the Group's accounting policies in respect of such derivative financial instruments. Changes in the fair value of derivatives that are designated as hedges of net investments in foreign operations are recognised in the statement of comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the statement of financial performance.

#### 1.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of trade discounts, value added and similar sales-based taxes, after eliminating revenue within the Group. Revenue is recognised as follows:

- revenue from construction and service activities represents the value of work carried out during the year, including amounts not invoiced;
- revenue from manufacturing activities is recognised when title has passed; and
- interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income is recognised when the shareholder's right to receive payment is established.

#### 1.5 Segmental reporting

The Group has adopted IFRS 8 Operating Segments in the year. The standard introduces the requirement to disclose reported segments in accordance with the internal reports provided to the Group's chief operating decision-maker. The Group considers its Board of Directors to be the chief operating decision-maker and therefore has aligned the segmental disclosures provided in Note 3 with the monthly reports provided to the Board of Directors. The Group's segmentation and its internal reports have been revised following the acquisition of Parsons Brinckerhoff Inc in October 2009. The segmentation was changed from the Group's previous segments which were Building, building management and services; Civil and specialist engineering and services; Rail engineering and services and Investments. The new reporting segments reflect the increased prominence of professional services, the core capabilities of the enlarged Group and the strategic objectives of the Group. The Group's revised segments have been based on the types of services provided. Operating segments with similar economic characteristics have been aggregated into four reportable segments. The new segments are Professional services; Construction services; Support services; Infrastructure investments; and Corporate activities. The definition of each reportable operating segment has been provided in Note 3. Further information on the business activities of each reportable operating segment are set out on pages 37 to 55.

## 1 Principal accounting policies continued

### 1.5 Segmental reporting continued

Working capital is the statement of financial position measure reported to the chief operating decision-maker. The profitability measure used to assess the performance of the Group is profit from operations before exceptional items and amortisation of intangible assets.

Segment results represent the contribution of the different segments after attributable corporate overheads. Transactions between segments are conducted at arm's length market prices. Segment assets and liabilities comprise those assets and liabilities directly attributable to the segments. Corporate assets and liabilities include cash balances, bank borrowings, tax balances and dividends payable.

Major customers are defined as customers contributing more than ten percent of the Group's external revenue.

### 1.6 Construction and service contracts

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date. The stage of completion is measured by the proportion of contract costs incurred for work performed to date to the estimated total contract costs or the proportion of the value of work done to the total value of work under the contract. Full provision is made for all known or expected losses on individual contracts once such losses are foreseen. Revenue in respect of variations to contracts, claims and incentive payments are recognised when it is probable it will be agreed by the client. Profit for the year includes the benefit of claims settled on contracts completed in previous years.

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written-off are deferred and amortised over the life of the contract.

### 1.7 Profit from operations

Profit from operations is stated after the Group's share of the post-tax results of equity accounted joint venture entities and associates, but before investment income and finance costs.

### 1.8 Finance costs

Finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the statement of financial performance on an accruals basis over the term of the instrument, using the effective interest method.

### 1.9 Research and development

Research expenditure is written-off in the period in which it is incurred.

Internally-generated intangible assets developed by the Group are recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

### 1.10 Exceptional items

Material and non-recurring items of income and expense are disclosed in the statement of financial performance as "Exceptional items". Examples of items which may give rise to disclosure as "Exceptional items" include gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses, acquisition expenses of newly acquired businesses, costs of integrating newly acquired businesses, premium paid on the repurchase of preference shares, litigation and regulatory settlements, asset impairments and pension scheme settlements and curtailments and other material non-recurring pension movements.

### 1.11 Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the statement of financial performance, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also dealt with in equity. Current tax is based on the profit for the year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax on such assets and liabilities is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 1.12 Intangible assets

#### a) Goodwill

Goodwill represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities acquired, arising on the acquisition of subsidiaries and other businesses, joint ventures and associates. Goodwill on acquisitions of subsidiaries and other businesses is included in non-current assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written-off or negative goodwill credited to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

#### b) Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost of other intangible assets is amortised over their expected useful lives, which range from one to ten years, except for intangible assets in respect of military housing contracts, which are amortised on a basis matching the return earned over the life of the underlying contracts which have a duration of up to 50 years.

### 1.13 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes expenditure associated with bringing the asset to its operating location and condition. Certain land and buildings were revalued under UK GAAP. On transition to IFRS, the Group has elected to use the revalued amount as deemed cost.

Except for land and assets in the course of construction, the costs of property, plant and equipment are depreciated over their expected useful lives, on a straight-line basis at rates of 2.5% for buildings or over the term of the lease and on a straight-line basis at rates of 4% to 33% for plant and equipment.



## Notes to the accounts

### 1 Principal accounting policies continued

#### 1.14 Leasing

Leases which transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value, or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease, and depreciation is provided accordingly. The liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant effective rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

#### 1.15 Impairment of assets

Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment. Other intangible assets and property, plant and equipment are reviewed for impairment whenever there is any indication that the carrying amount of the asset may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets, including goodwill, are grouped into cash generating units representing the level at which they are monitored by the Board of Directors for internal management purposes. Goodwill impairment losses are not reversed in subsequent periods. Reversals of other impairment losses are recognised in income when they arise.

#### 1.16 Investments

Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

From 1 January 2005, investments are classified as either available-for-sale or held to maturity. Available-for-sale investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period. Held to maturity investments are measured at subsequent reporting dates at amortised cost.

#### 1.17 Non-current assets held for sale

Non-current assets and groups of assets to be disposed of are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. Held for sale assets are measured at the lower of carrying amount and fair value less costs to sell.

#### 1.18 Inventories

Inventories are valued at the lower of cost and net realisable value.

Where appropriate, cost includes a proportion of manufacturing overheads incurred in bringing inventories to their present location and condition and is determined using the first-in first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### 1.19 Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

##### a) Cumulative convertible redeemable preference shares

The Company's cumulative convertible redeemable preference shares are a compound instrument, consisting of a liability component and an equity component. The fair value of the liability component was estimated using the prevailing market interest rate at the date of issue for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the embedded option to convert the liability into the Company's ordinary shares, is included in equity. The interest expense on the liability component is calculated by applying the market interest rate for similar non-convertible debt prevailing at the date of issue to the liability component of the instrument. The difference between this amount and the dividend paid is added to the carrying amount of the liability component and is included in finance charges, together with the dividend payable.

##### b) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage interest rate risk and to hedge exposures to fluctuations in foreign currencies and commodity prices in accordance with its risk management policy. The Group does not use derivative financial instruments for speculative purposes. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in Note 20 and in the Financial review on page 66.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently remeasured at their fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of financial performance together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the statement of financial performance. Amounts accumulated in equity are transferred to the statement of financial performance when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as hedges of net investments in foreign operations are recognised in equity. Changes in the fair value of the ineffective portion of net investment hedges are recognised in the statement of financial performance. Amounts accumulated in equity are transferred to the statement of financial performance upon disposal of the foreign operation.

## 1 Principal accounting policies continued

### 1.19 Financial instruments continued

#### b) Derivative financial instruments and hedge accounting continued

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives and recorded on the statement of financial position at fair value when their risks and characteristics are not closely related to those of the host contract. Changes in the fair value of those embedded derivatives recognised in the statement of financial position are recognised in the statement of financial performance as they arise.

#### c) PPP concession companies

Assets constructed by PPP concession companies are classified as available-for-sale financial assets.

In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on those costs. The residual element of projected cash is allocated to the financial asset, using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cashflows can be estimated with a high degree of certainty.

In the construction phase the fair value of the Group's PPP financial assets is determined by applying an attributable profit margin that represents the fair value of construction services performed. In the operational phase fair value is determined by discounting the future cashflows allocated to the financial asset using assumptions in respect of the discount rates which are based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movements in the fair value are taken to equity.

### 1.20 Trade receivables

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by allowances for estimated irrecoverable amounts.

### 1.21 Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

### 1.22 Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to income on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### 1.23 Retirement benefit costs

The Group, through trustees, operates a number of defined benefit and defined contribution pension schemes the majority of which are of the defined benefit type and are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

For defined benefit retirement benefit schemes, the cost of providing benefits recognised in the statement of financial performance and the defined benefit obligations are determined at the reporting date by independent actuaries, using the projected unit credit method. The liability recognised in the statement of financial position comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full in the period in which they occur outside the statement of financial performance in the statement of comprehensive income.

Contributions to defined contribution pension schemes are charged to the statement of financial performance as they fall due.

### 1.24 Provisions

Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognised at the best estimate of the expenditure required to settle the Group's liability. Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

### 1.25 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 1.26 Share-based payments

Employee services received in exchange for the grant of share options, performance share plan awards and deferred bonus plan awards since 7 November 2002 are charged in the statement of financial performance on a straight-line basis over the vesting period, based on the fair values of the options or awards at the date of grant and the numbers expected to become exercisable. The credits in respect of the amounts charged are included within separate reserves in equity until such time as the options or awards are exercised, when the proceeds received in respect of share options are credited to share capital and share premium or the shares held by the employee trust are transferred to employees in respect of performance share plan awards and deferred bonus plan awards.

### 1.27 Key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expense incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions. The estimates and assumptions that have the most significant impact on the carrying value of assets and liabilities of the Group within the next financial year are discussed below and in the Financial review.

## Notes to the accounts

### 1 Principal accounting policies continued

#### 1.27 Key sources of estimation uncertainty continued

##### a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in Notes 1.4 and 1.6, are central to the way the Group values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long-term professional service, construction service and support service contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities and changes in costs.

##### b) Recoverable value of recognised receivables

The Group has recognised trade receivables with a carrying value of £972m. The recoverability of trade receivables is regularly reviewed and specific provisions are recognised for balances considered to be irrecoverable. The irrecoverable amounts are estimated based on reviewing the available economic information specific to each receivable.

##### c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash generating unit and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash generating unit. The carrying value of goodwill at 31 December 2009 was £1,131m.

##### d) Available-for-sale financial assets

Assets constructed by the Group's PPP subsidiary, joint venture and associate companies are classified as "available-for-sale financial assets" and at 31 December 2009 had a value of £2,175m. The fair value of these financial assets is measured at each reporting date by discounting the future value of the cash flows allocated to the financial asset. A range of discount rates, varying from 6.45% to 9.45%, is used which reflects the prevailing risk-free interest rates and the different risk profiles of the various concessions. An £80m loss was taken to equity in 2009 as a result of movements in the fair value of these financial assets.

##### e) PPP derivative financial instruments

The Group's PPP subsidiary, joint venture and associate companies use derivative financial instruments, principally swaps, to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of derivatives constantly changes in response to prevailing market conditions. At 31 December 2009, a cumulative fair value loss of £154m had arisen on these financial instruments and a gain of £5m was taken to equity in 2009.

##### f) Impairment of investments in joint ventures and associates

Investments in joint ventures and associates are reviewed for impairment at the reporting date. Determining whether an investment balance is impaired requires an estimation of the value in use of the joint venture or associate. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the joint venture or associate and the application of a suitable discount rate in order to calculate the present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant joint venture or associate.

##### g) Retirement benefit obligations

Details of the Group's defined benefit pension schemes are set out in Note 25, including a table showing the sensitivity of the pension scheme obligations and the prospective 2010 charge to the statement of financial performance to different actuarial assumptions. At 31 December 2009, the defined benefit liability recognised on the Group's statement of financial position was £586m (2008: £261m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the schemes' assets are classified as actuarial gains and losses. During 2009 the Group recognised net actuarial losses of £350m in equity (2008: £76m), including its share of the actuarial gains and losses arising in joint ventures and associates.

##### h) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

As set out in Note 1.11 above, deferred tax is accounted for on temporary differences using the liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Note 24.2 details the unused tax losses for which deferred tax assets have not been recognised and the undistributed reserves of subsidiaries, joint venture entities and associates for which deferred tax liabilities have not been provided, together with the judgements which the Group has made at 31 December 2009 in respect of these matters. These judgements may change in the future and they will be reviewed at each reporting date.

#### 1.28 Exchange rates

The following key exchange rates were applied in the preparation of these financial statements:

##### Average rates

£1 buys	2009	2008	Change
US\$	<b>1.56</b>	1.86	(16)%
EUR	<b>1.12</b>	1.26	(11)%

##### Closing rates

£1 buys	2009	2008	Change
US\$	<b>1.62</b>	1.46	11%
EUR	<b>1.13</b>	1.05	8%

### 2 Revenue

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Revenue from the provision of services	<b>8,797</b>	8,118	—	—
Revenue from manufacturing activities	<b>139</b>	143	—	—
Proceeds from sale of development land	<b>18</b>	—	—	—
Dividends from subsidiaries	—	—	<b>150</b>	—
Dividends from joint ventures and associates	—	—	<b>39</b>	28
	<b>8,954</b>	8,261	<b>189</b>	28

### 3 Segment analysis

The reportable segments of the Group are:

- **Professional services:** the provision of project management, architectural, design or other technical services performed by the Group as consultants.
- **Construction services:** activities resulting in the physical construction of an asset.
- **Support services:** activities which support existing assets or functions such as facilities management, asset maintenance and standard renewal works.
- **Infrastructure investments:** acquisition, operation and disposal of infrastructure assets such as PPP concessions, airports and power stations.

#### 3.1 Total Group

	Professional services 2009 £m	Construction services 2009 £m	Support services 2009 £m	Infrastructure investments 2009 £m	Corporate activities 2009 £m	Total 2009 £m
<b>Performance by activity:</b>						
Revenue including share of joint ventures and associates before inter-segment eliminations	567	7,818	1,509	830	18	10,742
Inter-segment revenue	(9)	(327)	(66)	(1)	–	(403)
Revenue including share of joint ventures and associates	558	7,491	1,443	829	18	10,339
Share of revenue of joint ventures and associates	(5)	(673)	(140)	(567)	–	(1,385)
Group revenue	553	6,818	1,303	262	18	8,954
Group operating profit/(loss)	13	183	50	(12)	(35)	199
Share of results of joint ventures and associates	–	24	5	54	–	83
Profit/(loss) from operations before exceptional items and amortisation	13	207	55	42	(35)	282
Exceptional items	(23)	(16)	3	(1)	100	63
Amortisation of intangible assets	(8)	(20)	(2)	(18)	–	(48)
Profit/(loss) from operations	(18)	171	56	23	65	297
Investment income						32
Finance costs						(62)
Profit before taxation						267
<b>Assets and liabilities</b>						
Due from customers for contract work	133	339	52	–	–	524
Due to customers for contract work	(108)	(457)	(16)	–	–	(581)
Inventories	10	42	48	–	–	100
Trade and other receivables – current	281	860	127	47	14	1,329
Trade and other payables – current	(325)	(1,748)	(238)	(42)	(59)	(2,412)
Provisions	(22)	(143)	(38)	–	(19)	(222)
Working capital	(31)	(1,107)	(65)	5	(64)	(1,262)
Total assets	812	2,498	380	862	842	5,394
Total liabilities	(563)	(2,765)	(400)	(111)	(549)	(4,388)
Net assets	249	(267)	(20)	751	293	1,006
<b>Other information</b>						
Capital expenditure	2	55	10	3	1	71
Impairment of inventory, property, plant and equipment	–	4	–	–	–	4
Depreciation	2	50	13	2	2	69

	United Kingdom 2009 £m	United States 2009 £m	Rest of world 2009 £m	Total 2009 £m
<b>Performance by geographic destination:</b>				
Group revenue	5,364	2,837	753	8,954
Non-current assets excluding financial instruments and deferred tax assets	1,014	824	365	2,203

#### Major customers

Included in Group revenue are revenues of £2,832m (2008: £2,549m) from the UK Government and £1,605m (2008: £1,122m) from the US Government, which are considered to be the Group's two largest customers. These balances are included in the results across all four reported segments.



## Notes to the accounts

## 3 Segment analysis continued

## 3.1 Total Group continued

	Professional services 2008* £m	Construction services 2008* £m	Support services 2008* £m	Infrastructure investments 2008* £m	Corporate activities 2008* £m	Total 2008* £m
<b>Performance by activity:</b>						
Revenue including share of joint ventures and associates before inter-segment eliminations	298	7,368	1,612	553	—	9,831
Inter-segment revenue	(8)	(273)	(64)	—	—	(345)
Revenue including share of joint ventures and associates	290	7,095	1,548	553	—	9,486
Share of revenue of joint ventures and associates	—	(702)	(130)	(393)	—	(1,225)
Group revenue	290	6,393	1,418	160	—	8,261
Group operating profit/(loss)	14	146	48	(19)	(34)	155
Share of results of joint ventures and associates	—	21	4	50	—	75
Profit/(loss) from operations before exceptional items and amortisation	14	167	52	31	(34)	230
Exceptional items	—	(6)	—	(5)	59	48
Amortisation of intangible assets	(1)	(15)	(2)	(9)	—	(27)
Profit from operations	13	146	50	17	25	251
Investment income						43
Finance costs						(24)
Profit before taxation						270
<b>Assets and liabilities</b>						
Due from customers for contract work	1	307	75	—	—	383
Due to customers for contract work	(23)	(493)	(24)	—	—	(540)
Inventories	—	52	60	—	13	125
Trade and other receivables – current	61	932	129	49	22	1,193
Trade and other payables – current	(75)	(1,756)	(254)	(36)	(47)	(2,168)
Provisions	(1)	(109)	(31)	—	(25)	(166)
Working capital	(37)	(1,067)	(45)	13	(37)	(1,173)
Total assets	86	2,598	429	801	630	4,544
Total liabilities	(108)	(2,604)	(364)	(117)	(486)	(3,679)
Net assets	(22)	(6)	65	684	144	865
<b>Other information</b>						
Capital expenditure	1	79	11	1	1	93
Depreciation	1	48	13	1	2	65

## Performance by geographic destination:

	United Kingdom 2008* £m	United States 2008* £m	Rest of world 2008* £m	Total 2008* £m
Group revenue	5,509	2,211	541	8,261
Non-current assets excluding financial instruments and deferred tax assets	1,015	663	285	1,963

### 3 Segment analysis continued

#### 3.1 Total Group continued

	Professional services 2007* £m	Construction services 2007* £m	Support services 2007* £m	Infrastructure investments 2007* £m	Corporate activities 2007* £m	Total 2007* £m
<b>Assets and liabilities</b>						
Due from customers for contract work	11	249	78	–	–	338
Due to customers for contract work	(30)	(364)	(21)	–	–	(415)
Inventories	–	35	37	–	–	72
Trade and other receivables – current	31	695	116	17	22	881
Trade and other payables – current	(37)	(1,354)	(255)	(22)	(50)	(1,718)
Provisions	–	(48)	(13)	–	(67)	(128)
Working capital	(25)	(787)	(58)	(5)	(95)	(970)

\* Re-presented refer Note 1.5.

#### 3.2 Infrastructure investments (Balfour Beatty Capital and Balfour Beatty Communities)

	Group 2009 £m	Share of joint ventures and associates 2009 £m	Total 2009 £m	Group 2008 £m	Share of joint ventures and associates 2008 £m	Total 2008 £m
<b>Revenue</b>						
PPP						
– joint ventures and associates (Note 15.2)	–	472	472	–	293	293
– subsidiaries (Note 3.3)	125	–	125	95	–	95
Military housing	131	–	131	63	–	63
	<b>256</b>	<b>472</b>	<b>728</b>	158	293	451
Infrastructure						
– joint ventures and associates (Note 15.2)	–	95	95	–	100	100
– subsidiaries	6	–	6	2	–	2
	<b>262</b>	<b>567</b>	<b>829</b>	160	393	553

	Group 2009 £m	Share of joint ventures and associates 2009 £m	Total 2009 £m	Group 2008 £m	Share of joint ventures and associates 2008 £m	Total 2008 £m
<b>Profit from operations – before exceptional items and amortisation of intangible assets*</b>						
PPP						
– joint ventures and associates (Note 15.2)	–	31	31	–	31	31
– subsidiaries (Note 3.3)	1	–	1	1	–	1
– bidding costs and overheads	(30)	–	(30)	(27)	–	(27)
Military housing						
– joint ventures and associates (Note 15.2)	–	4	4	–	2	2
– subsidiaries	20	–	20	10	–	10
	<b>(9)</b>	<b>35</b>	<b>26</b>	(16)	33	17
Infrastructure						
– joint ventures and associates (Note 15.2)	–	19	19	–	17	17
– subsidiaries	(3)	–	(3)	(3)	–	(3)
	<b>(12)</b>	<b>54</b>	<b>42</b>	(19)	50	31

\* Profit from operations before exceptional items and amortisation of intangible assets includes the Group's share of profit after taxation of joint ventures and associates (excluding exceptional items and amortisation of intangible assets).

## Notes to the accounts

## 3 Segment analysis continued

	Group 2009 £m	Share of joint ventures and associates 2009 £m	Total 2009 £m	Group 2008 £m	Share of joint ventures and associates 2008 £m	Total 2008 £m
<b>Net assets</b>						
PPP						
– joint ventures and associates (Note 15.2 and 15.3)	–	242	242	–	253	253
– subsidiaries (Note 3.3)	238	–	238	118	–	118
Military housing						
– joint ventures and associates (Note 15.2)	–	46	46	–	48	48
– subsidiaries	163	–	163	199	–	199
	<b>401</b>	<b>288</b>	<b>689</b>	317	301	618
Infrastructure						
– joint ventures and associates (Note 15.2)	–	87	87	–	84	84
– subsidiaries	9	–	9	10	–	10
	<b>410</b>	<b>375</b>	<b>785</b>	327	385	712
Infrastructure investments central functions	(34)	–	(34)	(28)	–	(28)
Total infrastructure investments net assets	<b>376</b>	<b>375</b>	<b>751</b>	299	385	684
Net borrowings in relation to PPP subsidiaries	(248)	–	(248)	(143)	–	(143)
	<b>128</b>	<b>375</b>	<b>503</b>	156	385	541

## 3.3 PPP concession subsidiaries

The Group has a 100% interest in five PPP concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd, Connect Roads Derby Holdings Ltd, Transform Schools (Knowsley) Holdings Ltd and Connect CNDR Holdings Ltd. The performance of the wholly-owned PPP concessions and their statements of financial position are summarised below:

	2009 £m	2008 £m
<b>Statement of financial performance</b>		
Group revenue	125	95
Profit from operations	1	1
Investment income	14	7
Finance costs	(13)	(6)
Profit before taxation	2	2
Taxation	(1)	(1)
Profit for the year	1	1
<b>Cash flow</b>		
Profit from operations	1	1
Decrease in working capital	2	3
Income taxes paid	–	–
Net cash inflow from operating activities	3	4
Net cash outflow from investing activities	(94)	(80)
Net cash outflow from financing activities	(14)	(6)
Net cash outflow	(105)	(82)
Net borrowings at beginning of year	(143)	(61)
Net borrowings at end of year	(248)	(143)
<b>Statement of financial position</b>		
PPP financial assets (Note 17)	260	151
Derivative financial instruments	(24)	(39)
Other net current assets	2	6
	<b>238</b>	118
Cash and cash equivalents	10	2
Non-recourse term loans	(258)	(145)
Net liabilities	(10)	(25)

## 4 Profit from operations

### 4.1 Profit from operations is stated after charging/(crediting):

	2009 £m	2008 £m
Research and development costs	4	4
Depreciation of property, plant and equipment	69	65
Amortisation of other intangible assets	48	27
Impairment of trade receivables	3	5
Impairment of inventory	2	–
Impairment of property, plant and equipment	2	–
Profit on disposal of property, plant and equipment	(4)	(4)
Cost of inventory recognised as an expense	161	99
Exchange losses/(gains)	1	(1)
Auditors' remuneration	10	5
Hire charges for plant and equipment	83	120
Other operating lease rentals	75	59

### 4.2 Analysis of auditors' remuneration:

	2009 £m	2008 £m
Services as auditors	0.7	0.7
Other services – auditing financial statements of subsidiaries	3.4	2.9
	4.1	3.6
Amounts for statutory and regulatory filings	1.5	0.2
Audit and other assurance fees	5.6	3.8
Other fees:		
Taxation	1.8	0.2
Due diligence and acquisition related services	2.6	2.0
Other	0.3	0.1
Total fees in relation to audit and other services	10.3	6.1
Acquisition due diligence fees capitalised	–	1.1
Fees in relation to audit and other services recognised within expenses	10.3	5.0

## 5 Employee costs

### 5.1 Group

Employee costs during the year amounted to:

	2009 £m	2008 £m
Wages and salaries	1,616	1,416
Redundancy	16	8
Social security costs	160	133
Pension costs (Note 25.1)	71	73
Share-based payments (Note 30.1)	7	9
	1,870	1,639



## Notes to the accounts

### 5 Employee costs continued

#### 5.1 Group continued

The average number of Group employees (including executive Directors) was:

	2009 Number	2008 Number
Professional services	3,644	1,454
Construction services	22,241	21,964
Support services	14,945	15,081
Infrastructure investments	1,327	913
Corporate	140	113
	<b>42,297</b>	39,525

At 31 December 2009, the total number of Group employees was 51,543 (2008: 41,030).

#### 5.2 Company

The average number of employees of Balfour Beatty plc was 131 (2008: 104). Total employee costs of Balfour Beatty plc were £26m (2008: £23m). Total employee costs comprise wages and salaries £19m (2008: £16m), social security costs £2m (2008: £1m), pension costs £2m (2008: £2m) and share-based payments £3m (2008: £4m).

### 6 Investment income

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
PPP subordinated debt interest receivable	9	12	2	4
PPP interest on financial assets	14	7	–	–
Income arising from derivatives designated as hedges of net investments in foreign operations (Note 20.1)	1	6	–	–
Net investment income on pension scheme assets and liabilities (Note 25.1)	–	5	–	–
Interest receivable from subsidiaries	–	–	1	18
Other interest receivable and similar income	8	13	1	2
	<b>32</b>	43	<b>4</b>	24

### 7 Finance costs

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Preference shares – finance cost	12	12	12	12
PPP non-recourse – bank loans and overdrafts	13	6	–	–
Net finance cost on pension scheme assets and liabilities (Note 25.1)	15	–	–	–
Interest payable to subsidiaries	–	–	22	65
Other interest payable – bank loans and overdrafts	5	5	2	6
– other loans	2	1	–	–
	<b>47</b>	24	<b>36</b>	83
Exceptional items – foreign exchange options	15	–	–	–
	<b>62</b>	24	<b>36</b>	83

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid in respect of the six months ended 30 June 2009 on 1 July 2009 to holders of these shares on the register on 29 May 2009. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid in respect of the six months ended 31 December 2009 on 1 January 2010 to preference shareholders on the register on 27 November 2009.

## 8 Exceptional items and amortisation of intangible assets

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>8.1 Credited to/(charged against) profit from operations</b>				
Net operating expenses				
– reduction in pension past service liabilities	100	60	4	2
– acquisition related expenses	(16)	–	–	–
– Office of Fair Trading (“OFT”) fine	(5)	–	–	–
– post-acquisition integration, reorganisation and other costs	(12)	(6)	(2)	(1)
– impairment charges in respect of railways facilities and inventory	(4)	–	–	–
– adjustment to Birse Group goodwill	–	(3)	–	–
Share of joint ventures and associates – tax adjustments	–	(3)	–	–
	<b>63</b>	<b>48</b>	<b>2</b>	<b>1</b>
<b>8.2 Charged against finance costs</b>				
– foreign exchange options	(15)	–	–	–
<b>8.3 Credited to/(charged against) profit before taxation</b>	<b>48</b>	48	<b>2</b>	1
– tax on items above	(18)	(15)	(1)	(1)
– release of deferred tax on unremitted foreign earnings	16	–	–	–
– tax credit on recognition of Birse Group losses	–	3	–	–
– industrial buildings allowances	–	(3)	–	–
Exceptional items credited to profit for the year	<b>46</b>	33	<b>1</b>	–
Amortisation of intangible assets	(48)	(27)	–	–
Tax thereon	17	7	–	–
Credited to profit for the year	<b>15</b>	13	<b>1</b>	–

**8.1** In 2009 and 2008 the Group implemented measures to limit the increase in pension benefits of certain groups of in-service members of the Balfour Beatty Pension Fund giving rise to a reduction in past service liabilities of £100m in 2009 (2008: £60m), of which £4m (2008: £2m) was recognised within the 2009 Company accounts.

In 2009, costs directly attributable to acquisitions have been incurred in respect of: Dooley Construction Limited Partnership (“RT Dooley”) £1m and Parsons Brinckerhoff Inc £15m.

In 2004 the OFT initiated an investigation into tender activities across the UK construction sector. The OFT concluded its investigation in 2009 and determined that these activities amounted to breaches of competition law in the UK. As a result of the decision, Mansell was fined £5m in respect of such instances, all of which took place before its acquisition by the Group. The Company and its operating businesses co-operated with the OFT throughout the investigation.

Reorganisation and integration costs of £12m (2008: £6m) have been incurred, £8m (2008: £nil) relating to Parsons Brinckerhoff, £2m (2008: £nil) of which was borne by the Company, £1m (2008: £3m) relating to Balfour Beatty Communities (formerly GMH Military Housing), £nil (2008: £1m) of which was borne by the Company, £2m (2008: £2m) relating to Dean & Dyball, £3m (2008: £nil) relating to Schreck-Mieves, £1m (2008: £nil) relating to Douglas E Barnhart and a gain of £3m (2008: £nil) recognised in relation to the relocation of certain Rail UK businesses. In 2008 costs of £1m were incurred in the US on the reorganisation of the central division of Balfour Beatty Infrastructure Inc (formerly Balfour Beatty Construction Inc).

An impairment charge of £4m (2008: £nil) has been incurred in respect of writing down buildings and inventory of railway facilities in Germany to their fair value less costs to sell due to a decision by a main customer to consolidate procurement over fewer production facilities.

On the acquisition of Birse Group, tax losses were acquired which did not satisfy the criteria for recognition in the statement of financial position at the date of acquisition. In 2008 a portion of these losses was recognisable and the benefit was recorded as part of the Group’s tax charge in exceptional items. IAS 12 applicable to the 2008 results stipulates that in addition to recognising the tax benefit the carrying amount of goodwill recognised on the acquisition is reduced, with the reduction treated as an expense.

As a result of the UK Finance Act 2008, tax depreciation allowances on industrial buildings are being reduced to nil on a phased basis. In 2008 joint ventures and associates of the Group recognised a £4m deferred tax charge which was required under IAS 12 to establish a deferred tax liability. This liability will be released to the statement of financial performance as the relevant assets are depreciated for accounting purposes. In addition, a £1m deferred tax credit was recognised following agreement with HMRC on the basis of taxing certain PPP concessions.

**8.2** Due to the volatile currency markets, the Group entered into a number of foreign exchange option contracts in 2009 at a cost of £15m to limit the cash outflow for the planned settlement of the Group’s foreign exchange contracts in respect of net investment hedging.

In 2008 a premium of £0.1m arose on the repurchase for cancellation of 0.3m preference shares at a cost of £0.4m which was charged to exceptional finance costs. No preference shares were repurchased in 2009.

**8.3** The exceptional items credited to/(charged against) profit from operations have given rise to a net tax charge of £18m (2008: £12m charge). As a result of the Finance Act 2009, future dividend income from outside the UK will be exempt from UK corporation tax which has led to the release of £10m of deferred tax in the UK. In addition, there has been a release of £6m of US deferred tax in relation to unremitted earnings where future additional US tax will no longer be incurred. Subsidiaries of the Group recognised a £3m deferred tax charge in 2008 to establish a deferred tax liability in relation to industrial building allowances which was required under IAS 12. This liability is being released to the statement of financial performance as the relevant buildings are depreciated for accounting purposes.

## Notes to the accounts

## 9 Taxation

## 9.1 Taxation charge

	Group					
	Before exceptional items* £m	Exceptional items* (Note 8) £m	Total 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>UK current tax</b>						
– corporation tax for the year at 28% (2008: 28.5%)	12	(5)	7	20	(7)	(17)
– double tax relief	–	–	–	(2)	–	–
– ACT write-off	–	–	–	4	–	–
– adjustments in respect of previous periods	(8)	–	(8)	–	(10)	–
	<b>4</b>	<b>(5)</b>	<b>(1)</b>	22	<b>(17)</b>	(17)
<b>Foreign current tax</b>						
– foreign tax on profits for the year	31	(15)	16	12	–	–
– adjustments in respect of previous periods	(2)	–	(2)	–	–	–
	<b>29</b>	<b>(15)</b>	<b>14</b>	12	–	–
<b>Total current tax</b>	<b>33</b>	<b>(20)</b>	<b>13</b>	34	<b>(17)</b>	(17)
<b>Deferred tax</b>						
– UK	13	15	28	24	–	1
– foreign tax	18	(10)	8	16	–	–
– adjustments in respect of previous periods	5	–	5	–	–	–
<b>Total deferred tax</b>	<b>36</b>	<b>5</b>	<b>41</b>	40	–	1
<b>Total tax charge/(credit)</b>	<b>69</b>	<b>(15)</b>	<b>54</b>	74	<b>(17)</b>	(16)

\* and amortisation of intangible assets.

The Group tax charge above does not include any amounts for joint ventures and associates (see Note 15.2), whose results are disclosed in the statement of financial performance net of tax.

In addition to the Group tax charge above is £120m of tax credited (2008: £25m credited) directly to equity, comprising a current tax credit of £nil (2008: £6m credit), a deferred tax credit of £94m (2008: £23m credit), and a credit in respect of joint ventures and associates of £26m (2008: £4m charge).

In addition to the Company tax credit is £5m of deferred tax credited directly to equity (2008: £1m charged).

The weighted average applicable tax rate is 33% (2008: 32%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

## 9 Taxation continued

### 9.2 Taxation reconciliation

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Profit/(Loss) before taxation	267	270	150	(44)
Less: share of results of joint ventures and associates	(83)	(72)	–	–
Profit/(Loss) before taxation	184	198	150	(44)
Less: exceptional items* credited excluding share of joint ventures and associates	–	(24)	(2)	(1)
Profit/(Loss) before taxation, exceptional items and amortisation of intangible assets excluding the results of joint ventures and associates	184	174	148	(45)
Tax on profit/(loss) before taxation at standard UK corporation tax rate of 28% (2008: 28.5%)	52	56	41	(12)
<b>Effects of:</b>				
Expenses not deductible for tax purposes including amortisation of goodwill	8	6	2	1
Dividend income taxable/(not taxable)	–	5	(53)	(8)
Preference shares finance costs not deductible	3	3	3	3
Losses not available for offset	–	2	–	–
Higher tax rates on foreign earnings	13	4	–	–
Adjustments in respect of other periods	(5)	(5)	(10)	–
Recognition of losses not previously recognised	(1)	(4)	–	–
Release of deferred tax on unremitted earnings	(16)	–	–	–
Withdrawal of industrial buildings allowances	–	3	–	–
Advance corporation tax write off	–	4	–	–
Total tax charge/(credit) on profit/(loss)	54	74	(17)	(16)
(Less)/Add: tax (charge)/credit on exceptional items and amortisation of intangible assets	15	(8)	(1)	(1)
Tax on profit/(loss) before exceptional items and amortisation of intangible assets	69	66	(18)	(17)

\* and amortisation of intangible assets.

## 10 Earnings per ordinary share

	Basic 2009 £m	Diluted 2009 £m	Basic 2008 <sup>†</sup> £m	Diluted 2008 <sup>†</sup> £m
Earnings	213	213	196	196
Exceptional items – net of tax charge of £2m (2008: £15m)	(46)	(46)	(33)	(33)
Amortisation of intangible assets – net of tax credit of £17m (2008: £7m)	31	31	20	20
Adjusted earnings	198	198	183	183
	Basic 2009 m	Diluted 2009 m	Basic 2008 <sup>†</sup> m	Diluted 2008 <sup>†</sup> m
Weighted average number of ordinary shares	571	572	525	528
	Basic 2009 Pence	Diluted 2009 Pence	Basic 2008 <sup>†</sup> Pence	Diluted 2008 <sup>†</sup> Pence
Earnings per ordinary share	37.4	37.3	37.4	37.2
Exceptional items	(8.0)	(7.9)	(6.3)	(6.2)
Amortisation of intangible assets	5.3	5.3	3.6	3.6
Adjusted earnings per ordinary share	34.7	34.7	34.7	34.6

<sup>†</sup> Per share numbers have been restated for the bonus element of the 2009 rights issue (Note 28.2).

The calculation of basic earnings is based on profit for the period attributable to equity shareholders. The calculation of the weighted average number of ordinary shares was affected by the issue of 205,502,237 ordinary shares on 22 October 2009 and the issue of 43,320,411 ordinary shares on 20 May 2008. It has been adjusted for the conversion of share options in the calculation of diluted earnings per ordinary share. No adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout each period. Adjusted earnings per ordinary share, before post-tax exceptional items and post-tax amortisation of intangible assets, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

The per share information has been restated for the bonus element of the 2009 rights issue described in Note 28.2. The adjustment factor has been calculated by dividing the share price immediately before the shares were quoted ex-rights (316.0p) with the theoretical ex-rights price (275.2p), giving an adjustment factor of 1.14826.



## Notes to the accounts

## 11 Dividends on ordinary shares

	Per share 2009 pence (adjusted)	Amount 2009 £m	Per share 2008 pence (adjusted)	Amount 2008 £m
Proposed dividends for the year:				
Interim – current year	4.8	26	4.4	24
Final – current year	7.2	49	6.7	37
	<b>12.0</b>	<b>75</b>	11.1	61
Recognised dividends for the year:				
Final – prior year		37		30
Interim – current year		26		24
		<b>63</b>		54

The current year interim and 2008 comparative dividend per share information in the above table has been restated for the bonus element of the 2009 rights issue (Note 28.2). The interim 2009 dividend was paid on 4 December 2009. Subject to approval at the Annual General Meeting on 12 May 2010, the final 2009 dividend will be paid on 5 July 2010 to holders of ordinary shares on the register on 23 April 2010 by direct credit or, where no mandate has been given, by cheque posted on 2 July 2010 payable on 5 July 2010. These shares will be quoted ex-dividend on 21 April 2010.

## 12 Intangible assets – goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2008	730	(36)	694
Exchange and other adjustments	150	(13)	137
Businesses acquired	144	–	144
At 31 December 2008	1,024	(49)	975
Exchange and other adjustments	(55)	5	(50)
Businesses acquired (Note 29)	206	–	206
At 31 December 2009	<b>1,175</b>	<b>(44)</b>	<b>1,131</b>

The carrying amounts of goodwill by segment are as follows:

	United Kingdom 2009 £m	United States 2009 £m	Rest of world 2009 £m	Total 2009 £m	United Kingdom 2008 £m	United States 2008 £m	Rest of world 2008 £m	Total 2008 £m
Professional services	14	129	46	189	1	15	–	16
Construction services	319	313	169	801	314	317	180	811
Support services	96	–	–	96	96	–	–	96
Infrastructure investments	4	41	–	45	6	46	–	52
Group	<b>433</b>	<b>483</b>	<b>215</b>	<b>1,131</b>	417	378	180	975

The recoverable amount of goodwill is based on value in use. Cash flow forecasts have been based on the expected workload of each cash generating unit (CGU) giving consideration to the current level of confirmed orders and anticipated orders. Cash flow forecasts for the next three years are based on the Group's 2010 budget and medium-term plan. The other key inputs in assessing each CGU are its revenue growth rate and discount rate. The growth rate has been applied to cash flows after three years into perpetuity and reflects published GDP growth rates for the economic environment of each CGU. The cash flows assume a residual value based on a multiple of earnings before interest and tax.

The cash flows have been discounted using a pre-tax discount rate in the range of 10.6%–12.8% (2008: 10.6%–12.2%). The discount rates are revised annually applying updated market inputs to the capital asset pricing model.

	2009			2008		
	United Kingdom	United States	Rest of world	United Kingdom	United States	Rest of world
Inflation rate	1.9%	1.8%	1.0%	2.2%	2.3%	1.9%
GDP growth rate	0.8%	1.5%	0.3%	1.1%	1.9%	1.0%
Nominal long-term growth rate applied	2.7%	3.3%	1.3%	3.3%	4.2%	2.9%

## 12 Intangible assets – goodwill continued

### Sensitivities

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the revenue growth rate and the discount rate.

A reasonably possible change in a single assumption will not cause impairment in any of the Group's CGUs. However, a significant adverse change in the key assumptions could result in an impairment in the Balfour Beatty Communities CGU as its fair value currently exceeds its carrying value by approximately 7% and in the Balfour Beatty Rail Inc CGU as its fair value currently exceeds its carrying value by approximately 30%. The carrying value of the goodwill of Balfour Beatty Communities is £41m and of Balfour Beatty Rail Inc £15m.

## 13 Intangible assets – other

	Customer contracts £m	Customer relationships £m	Brand names £m	Software £m	Total £m
<b>Cost</b>					
At 1 January 2008	31	30	8	–	69
Currency translation differences	52	7	1	–	60
Businesses acquired	127	7	3	–	137
At 31 December 2008	210	44	12	–	266
Currency translation differences	(20)	(3)	–	–	(23)
Additions	–	–	–	3	3
Businesses acquired (Note 29)	26	73	37	3	139
At 31 December 2009	216	114	49	6	385
<b>Accumulated amortisation</b>					
At 1 January 2008	(7)	(2)	(1)	–	(10)
Currency translation differences	(5)	(1)	–	–	(6)
Charge for the year	(20)	(4)	(3)	–	(27)
At 31 December 2008	(32)	(7)	(4)	–	(43)
Currency translation differences	3	1	–	–	4
Charge for the year	(32)	(11)	(4)	(1)	(48)
At 31 December 2009	(61)	(17)	(8)	(1)	(87)
<b>Carrying amount</b>					
At 31 December 2009	155	97	41	5	298
At 31 December 2008	178	37	8	–	223

Intangible assets are amortised on a straight-line basis over their expected useful lives, which are one to four years for customer contracts, three to ten years for customer relationships and up to five years for brand names, except for customer contracts and relationships relating to Parsons Brinckerhoff, Barnhart and Balfour Beatty Communities which are amortised on a basis matching the returns earned over the life of the underlying contracts and relationships. These contracts have a duration of up to eight years for customer contracts and relationships relating to Parsons Brinckerhoff and Barnhart and up to 50 years for customer contracts relating to Balfour Beatty Communities.

## Notes to the accounts

## 14 Property, plant and equipment

## 14.1 Movements

	Group			Company
	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Plant and equipment £m
<b>Cost or valuation</b>				
At 1 January 2008	59	426	1	2
Currency translation differences	6	44	–	–
Additions	11	82	–	1
Disposals	(5)	(48)	–	–
Businesses acquired	28	21	–	–
Transfers	–	1	(1)	–
At 31 December 2008	99	526	–	3
Currency translation differences	<b>(3)</b>	<b>(15)</b>	–	–
Additions	<b>6</b>	<b>62</b>	<b>3</b>	<b>1</b>
Disposals	<b>(1)</b>	<b>(51)</b>	–	–
Businesses acquired	<b>21</b>	<b>19</b>	–	–
At 31 December 2009	<b>122</b>	<b>541</b>	<b>3</b>	<b>4</b>
<b>Accumulated depreciation</b>				
At 1 January 2008	(15)	(256)	–	(2)
Currency translation differences	(2)	(31)	–	–
Charge for the year	(3)	(62)	–	–
Disposals	–	40	–	–
At 31 December 2008	(20)	(309)	–	(2)
Currency translation differences	<b>1</b>	<b>11</b>	–	–
Charge for the year	<b>(6)</b>	<b>(63)</b>	–	<b>(1)</b>
Impairment	<b>(2)</b>	–	–	–
Disposals	–	<b>37</b>	–	–
At 31 December 2009	<b>(27)</b>	<b>(324)</b>	–	<b>(3)</b>
<b>Carrying amount</b>				
At 31 December 2009	<b>95</b>	<b>217</b>	<b>3</b>	<b>1</b>
At 31 December 2008	79	217	–	1

The carrying amount of the Group's property, plant and equipment held under finance leases was £7m (2008: £6m). The Company has no land and buildings and no property, plant and equipment held under finance leases.

## 14.2 Analysis of carrying amount of land and buildings

	Group 2009 £m	Group 2008 £m
Freehold	<b>65</b>	65
Long leasehold – over 50 years unexpired	<b>4</b>	2
Short leasehold	<b>26</b>	12
	<b>95</b>	79

**15 Investments in joint ventures and associates****15.1 Movements**

	Net assets £m	Loans £m	Provisions £m	Total £m
At 1 January 2008	323	173	(115)	381
Income recognised	72	–	–	72
Actuarial losses on retirement benefit obligations	(14)	–	–	(14)
Fair value revaluation of other cash flow hedges	(3)	–	–	(3)
Fair value revaluation of PPP cash flow hedges	(73)	–	–	(73)
Fair value revaluation of PPP financial assets	100	–	–	100
Currency translation differences	27	–	–	27
Tax on items taken directly to equity	(4)	–	–	(4)
Dividends	(53)	–	–	(53)
Additions	11	–	–	11
Loans advanced	–	9	–	9
Loans repaid	–	(11)	–	(11)
Businesses acquired	27	–	–	27
At 31 December 2008	413	171	(115)	469
Income recognised	<b>83</b>	–	–	<b>83</b>
Fair value revaluation of PPP cash flow hedges	<b>(11)</b>	–	–	<b>(11)</b>
Fair value revaluation of PPP financial assets	<b>(79)</b>	–	–	<b>(79)</b>
Currency translation differences	<b>(10)</b>	–	–	<b>(10)</b>
Tax on items taken directly to equity	<b>26</b>	–	–	<b>26</b>
Dividends	<b>(75)</b>	–	–	<b>(75)</b>
Additions	<b>4</b>	–	–	<b>4</b>
Loans advanced	–	<b>59</b>	–	<b>59</b>
Loans repaid	–	<b>(13)</b>	–	<b>(13)</b>
Provisions utilised	–	<b>(15)</b>	<b>15</b>	–
Businesses acquired	<b>5</b>	–	–	<b>5</b>
At 31 December 2009	<b>356</b>	<b>202</b>	<b>(100)</b>	<b>458</b>

Principal joint ventures and associates are shown in Note 36. The original cost of the Group's investments in joint ventures and associates was £174m (2008: £165m). The Group's share of borrowings of joint ventures and associates is shown in Note 15.2 below. The amount of these which was supported by the Group and the Company was £10m (2008: £13m), relating to the Group's share of guaranteed borrowings. The borrowings of Barking Power Ltd, Regional & City Airports (Exeter) Ltd and the PPP joint venture and associate entities are repayable over periods extending up to 2040. As disclosed in Note 31, the Group has committed to provide its share of further equity funding of joint ventures and associates in PPP projects and military housing concessions. Further, in respect of a number of these investments the Group has committed not to dispose of its equity interest until construction has been completed. As is customary in such projects, dividend payments and other distributions are restricted until certain banking covenants are met.

## Notes to the accounts

## 15 Investments in joint ventures and associates continued

## 15.2 Share of results and net assets of joint ventures and associates

	Professional services 2009 £m	Construction services 2009 £m	Support services 2009 £m	Infrastructure investments			Total 2009 £m	Total 2009 £m
				PPP 2009 £m	Military housing 2009* £m	Infrastructure 2009 £m		
Revenue	5	673	140	472	–	95	567	1,385
Operating profit	–	25	7	9	4	28	41	73
Investment income	–	–	–	139	–	–	139	139
Finance costs	–	–	–	(103)	–	(3)	(106)	(106)
Profit before taxation	–	25	7	45	4	25	74	106
Taxation	–	(1)	(2)	(14)	–	(6)	(20)	(23)
Profit after taxation	–	24	5	31	4	19	54	83
<b>Non-current assets</b>								
Intangible assets – goodwill	–	29	–	–	–	24	24	53
– other	–	–	–	3	–	–	3	3
Property, plant and equipment	–	33	1	–	–	104	104	138
PPP financial assets	–	–	–	1,915	–	–	1,915	1,915
Military housing projects	–	–	–	–	45	–	45	45
Other non-current assets	–	9	–	52	–	2	54	63
<b>Current assets</b>								
Cash and cash equivalents	8	137	7	141	–	15	156	308
Other current assets	13	323	25	98	1	17	116	477
<b>Total assets</b>	<b>21</b>	<b>531</b>	<b>33</b>	<b>2,209</b>	<b>46</b>	<b>162</b>	<b>2,417</b>	<b>3,002</b>
<b>Current liabilities</b>								
Borrowings	–	(22)	–	(41)	–	(7)	(48)	(70)
Other current liabilities	(15)	(275)	(23)	(94)	–	(19)	(113)	(426)
<b>Non-current liabilities</b>								
Borrowings	–	(3)	–	(1,627)	–	(23)	(1,650)	(1,653)
Other non-current liabilities	(6)	(158)	–	(205)	–	(26)	(231)	(395)
<b>Total liabilities</b>	<b>(21)</b>	<b>(458)</b>	<b>(23)</b>	<b>(1,967)</b>	<b>–</b>	<b>(75)</b>	<b>(2,042)</b>	<b>(2,544)</b>
<b>Net assets</b>	<b>–</b>	<b>73</b>	<b>10</b>	<b>242</b>	<b>46</b>	<b>87</b>	<b>375</b>	<b>458</b>

\* The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return for the underlying projects.

Capital expenditure authorised and contracted which has not been provided for in the accounts of the joint ventures and associates amounted to £2m (2008: £7m). The military housing joint ventures and associates have total non-recourse net borrowings of £1,330m (2008: £1,114m). Note 36(e) details the Group's military housing projects.



## 15 Investments in joint ventures and associates continued

### 15.2 Share of results and net assets of joint ventures and associates continued

	Professional services 2008 <sup>†</sup> £m	Construction services 2008 <sup>†</sup> £m	Support services 2008 <sup>†</sup> £m	Infrastructure investments				Total 2008 £m	Total 2008 £m
				PPP 2008 £m	Military housing 2008* £m	Infrastructure 2008 £m	Total 2008 £m		
Revenue	—	702	130	293	—	100	393	1,225	
Operating profit before exceptional items	—	23	5	7	2	26	35	63	
Investment income	—	1	—	125	—	—	125	126	
Finance costs	—	—	—	(87)	—	(3)	(90)	(90)	
Profit before taxation and exceptional items	—	24	5	45	2	23	70	99	
Taxation	—	(3)	(1)	(14)	—	(6)	(20)	(24)	
Exceptional items	—	—	—	(1)	—	(2)	(3)	(3)	
Profit after taxation	—	21	4	30	2	15	47	72	
<b>Non-current assets</b>									
Intangible assets – goodwill	—	32	—	—	—	24	24	56	
– other	—	—	—	2	—	—	2	2	
Property, plant and equipment	—	35	1	—	—	109	109	145	
PPP financial assets	—	—	—	1,663	—	—	1,663	1,663	
Military housing projects	—	—	—	—	48	—	48	48	
Other non-current assets	—	1	—	72	—	1	73	74	
<b>Current assets</b>									
Cash and cash equivalents	—	157	4	113	—	16	129	290	
Other current assets	—	398	20	145	—	21	166	584	
<b>Total assets</b>	—	623	25	1,995	48	171	2,214	2,862	
<b>Current liabilities</b>									
Borrowings	—	(22)	—	(41)	—	(7)	(48)	(70)	
Other current liabilities	—	(363)	(18)	(88)	—	(19)	(107)	(488)	
<b>Non-current liabilities</b>									
Borrowings	—	(3)	(2)	(1,440)	—	(29)	(1,469)	(1,474)	
Other non-current liabilities	—	(156)	—	(173)	—	(32)	(205)	(361)	
<b>Total liabilities</b>	—	(544)	(20)	(1,742)	—	(87)	(1,829)	(2,393)	
<b>Net assets</b>	—	79	5	253	48	84	385	469	

\* The Group's investment in military housing projects is recognised at the initial equity investment plus the value of the Group's accrued preferred return for the underlying projects.

<sup>†</sup> 2008 comparative information has been re-presented to reflect the revision of the Group's segmentation, refer Note 1.5.

### 15.3 PPP investments

The Group's investment in PPP and military housing joint ventures and associates comprises:

	Net investment 2009 £m	Reserves 2009 £m	Total 2009 £m	Net investment 2008 £m	Reserves 2008 £m	Total 2008 £m
Roads	68	42	110	43	94	137
Hospitals	79	12	91	60	21	81
Schools	33	(3)	30	25	(7)	18
Other concessions	3	8	11	3	14	17
	183	59	242	131	122	253
Military housing	44	2	46	47	1	48
	227	61	288	178	123	301

## Notes to the accounts

## 15 Investments in joint ventures and associates continued

## 15.4 Cash flow from/(to) joint ventures and associates

	PPP 2009 £m	Military housing 2009 £m	Infrastructure 2009 £m	Other 2009 £m	Total 2009 £m	PPP 2008 £m	Military housing 2008 £m	Infrastructure 2008 £m	Other 2008 £m	Total 2008 £m
Cash flows from investing activities										
Dividends from joint ventures and associates	28	3	19	25	75	17	2	13	21	53
Subordinated debt interest received	10	–	–	–	10	12	–	–	–	12
Investment in and loans made to joint ventures and associates	(50)	(1)	–	1	(50)	(7)	(8)	–	5	(10)
Acquisitions of joint ventures and associates	(3)	–	–	(2)	(5)	–	(27)	–	–	(27)
Total investments in joint ventures and associates	(53)	(1)	–	(1)	(55)	(7)	(35)	–	5	(37)
Net cash flow from/(to) joint ventures and associates	(15)	2	19	24	30	22	(33)	13	26	28

Investments in joint ventures and associates comprise:

	PPP 2009 £m	Military housing 2009 £m	Infrastructure 2009 £m	Other 2009 £m	Total 2009 £m	PPP 2008 £m	Military housing 2008 £m	Infrastructure 2008 £m	Other 2008 £m	Total 2008 £m
Investments in:										
– equity	(2)	(1)	–	(2)	(5)	–	(35)	–	(3)	(38)
– subordinated debt	(62)	–	–	–	(62)	(7)	–	–	–	(7)
– subordinated debt repaid	11	–	–	–	11	–	–	–	–	–
– other loans	–	–	–	1	1	–	–	–	8	8
Total investments in joint ventures and associates	(53)	(1)	–	(1)	(55)	(7)	(35)	–	5	(37)

## 15.5 Share of joint ventures' and associates' reserves

	Accumulated profit/(loss) £m	Hedging reserve £m	PPP financial assets £m	Currency translation reserve £m	Total £m
Balance at 1 January 2008	152	(25)	54	(3)	178
Income recognised	72	–	–	–	72
Actuarial gains on retirement benefit obligations	(14)	–	–	–	(14)
Fair value revaluation of PPP cash flow hedges	–	(3)	–	–	(3)
Fair value revaluation of PPP financial assets	–	(73)	–	–	(73)
Reclassified and reported in net profit	–	–	100	–	100
Tax on items taken directly to equity	3	21	(28)	–	(4)
Dividends paid	(53)	–	–	–	(53)
Transfers	–	–	–	27	27
Balance at 31 December 2008	160	(80)	126	24	230
Income recognised	83	–	–	–	83
Fair value revaluation of PPP cash flow hedges	–	(11)	–	–	(11)
Fair value revaluation of PPP financial assets	–	–	(79)	–	(79)
Tax on items taken directly to equity	–	4	22	–	26
Dividends paid	(75)	–	–	–	(75)
Currency translation differences	–	–	–	(10)	(10)
Balance at 31 December 2009	168	(87)	69	14	164

## 16 Investments

### 16.1 Group

Group investments comprise £42m (2008: £55m) held to maturity bonds held by Delphian Insurance Company Ltd, the Group's captive insurance company and £41m (2008: £nil) available-for-sale investments in mutual funds relating to the Group's deferred compensation schemes.

The held to maturity bonds held by Delphian Insurance Company Ltd comprise fixed rate bonds or treasury stock with an average yield to maturity of 2.46% (2008: 5.15%) and weighted average life of 2.4 years (2008: 3.57 years). The fair value of the bonds is £41m (2008: £54m), determined by the market price of the bonds at the reporting date. The maximum exposure to credit risk at 31 December 2009 is the carrying amount. These bonds have been pledged as security for letters of credit issued in respect of Delphian Insurance Company Ltd.

The available-for-sale investments in mutual funds comprise holdings in a number of funds in respect of the deferred compensation obligations of the Group as disclosed in Note 25. Investments are made based on the investment elections made by employees. The fair value of the available-for-sale investments is £41m (2008: £nil), determined by the market price of each fund at the reporting date.

### 16.2 Company

	2009 £m	2008 £m
Investment in subsidiaries	2,224	1,882
Investment in joint ventures and associates	14	14
Provisions	(143)	(158)
	<b>2,095</b>	<b>1,738</b>

## 17 PPP financial assets

	Schools £m	Roads £m	Total £m
Balance at 1 January 2008	26	36	62
Income recognised in the statement of financial performance			
– Interest income	4	3	7
Gains recognised in the statement of comprehensive income			
– Fair value movements	–	2	2
Other movements			
– Cash expenditure	72	19	91
– Cash received	–	(11)	(11)
Balance at 31 December 2008	102	49	151
Income recognised in the statement of financial performance			
– Construction contract margin	1	–	1
– Interest income	9	5	14
Gains/(losses) recognised in the statement of comprehensive income			
– Fair value movements	1	(2)	(1)
Other movements			
– Cash expenditure	62	42	104
– Cash received	–	(9)	(9)
Balance at 31 December 2009	<b>175</b>	<b>85</b>	<b>260</b>

Assets constructed by PPP subsidiary concession companies are classified as available-for-sale financial assets. The maximum exposure to credit risk at the reporting date is the fair value of the PPP financial assets. PPP financial assets are denominated in sterling. There were no disposals or impairment provisions in 2009 or 2008.

## 18 Inventories

	2009 £m	2008 £m
Unbilled work in progress	44	54
Raw materials and consumables	40	33
Manufacturing work in progress	7	9
Finished goods and goods for resale	5	7
Development and housing land and work in progress	4	22
	<b>100</b>	<b>125</b>

## Notes to the accounts

## 19 Construction contracts

	2009 £m	2008 £m
Contracts in progress at reporting date:		
Due from customers for contract work	524	383
Due to customers for contract work	(581)	(540)
	<b>(57)</b>	<b>(157)</b>

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the reporting date was £14,105m (2008: £13,061m).

## 20 Financial instruments

## Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in Note 1.

## Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Balfour Beatty plc, consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 27 and 28; preference shares as disclosed in Note 27; and cash and cash equivalents and borrowings as disclosed in Note 23.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings. The Group's and Company's policy is to carry no significant net debt, other than the non-recourse borrowings of companies engaged in PPP projects and infrastructure investments.

The Group's and Company's overall capital risk management strategy remains unchanged from 2008.

## 20.1 Group

## Categories of financial instruments

Group	Loans and receivables at amortised cost, cash and cash equivalents 2009 £m	Financial liabilities at amortised cost 2009 £m	Available-for-sale financial assets 2009 £m	Held to maturity financial assets 2009 £m	Derivatives Note (i) 2009 £m	Loans and receivables at amortised cost, cash and cash equivalents 2008 £m	Financial liabilities at amortised cost 2008 £m	Available-for-sale financial assets 2008 £m	Held to maturity financial assets 2008 £m	Derivatives Note (i) 2008 £m
<b>Financial assets</b>										
Fixed rate corporate bonds and gilts	–	–	–	42	–	–	–	–	55	–
Mutual funds	–	–	41	–	–	–	–	–	–	–
PPP financial assets	–	–	260	–	–	–	–	151	–	–
Cash and cash equivalents	618	–	–	–	–	463	–	–	–	–
Trade and other receivables	1,332	–	–	–	–	1,186	–	–	–	–
Derivatives	–	–	–	–	1	–	–	–	–	5
<b>Total</b>	<b>1,950</b>	<b>–</b>	<b>301</b>	<b>42</b>	<b>1</b>	<b>1,649</b>	<b>–</b>	<b>151</b>	<b>55</b>	<b>5</b>
<b>Financial liabilities</b>										
Liability component of preference shares	–	(88)	–	–	–	–	(87)	–	–	–
Trade and other payables	–	(2,299)	–	–	–	–	(2,107)	–	–	–
Unsecured borrowings	–	(23)	–	–	–	–	(12)	–	–	–
Secured borrowings	–	(13)	–	–	–	–	(9)	–	–	–
PPP non-recourse term loans	–	(258)	–	–	–	–	(145)	–	–	–
Derivatives	–	–	–	–	(25)	–	–	–	–	(106)
<b>Total</b>	<b>–</b>	<b>(2,681)</b>	<b>–</b>	<b>–</b>	<b>(25)</b>	<b>–</b>	<b>(2,360)</b>	<b>–</b>	<b>–</b>	<b>(106)</b>
<b>Net</b>	<b>1,950</b>	<b>(2,681)</b>	<b>301</b>	<b>42</b>	<b>(24)</b>	<b>1,649</b>	<b>(2,360)</b>	<b>151</b>	<b>55</b>	<b>(101)</b>

## 20 Financial instruments continued

## Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m
Foreign currency contracts:												
At fair value through profit and loss – held for trading	–	–	–	(1)	–	(1)	2	–	2	(5)	–	(5)
Designated as net investment hedging instruments	–	–	–	–	–	–	–	–	–	(61)	–	(61)
Designated as cash flow hedges	–	1	1	–	–	–	–	3	3	–	(1)	(1)
Interest rate swaps:												
Designated as cash flow hedges	–	–	–	–	(24)	(24)	–	–	–	–	(39)	(39)
	–	1	1	(1)	(24)	(25)	2	3	5	(66)	(40)	(106)

## Non-derivative financial liabilities gross maturity

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Group is entitled to and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest, that have not been included in the carrying value of the financial liability.

The maturity profile of the Group's non-derivative financial liabilities at 31 December was as follows:

	PPP non-recourse project finance 2009 £m	Other borrowings 2009 £m	Other financial liabilities 2009 £m	Total non-derivative financial liabilities 2009 £m	Total discount 2009 £m	Carrying value 2009 £m
Due on demand or within one year	(20)	(23)	(2,170)	(2,213)	12	(2,201)
Due within one to two years	(11)	(1)	(65)	(77)	15	(62)
Due within two to five years	(54)	(6)	(53)	(113)	56	(57)
Due after more than five years	(424)	(6)	(246)	(676)	315	(361)
	(509)	(36)	(2,534)	(3,079)	398	(2,681)
Discount	251	–	147	398		
Carrying value	(258)	(36)	(2,387)	(2,681)		

	PPP non-recourse project finance 2008 £m	Other borrowings 2008 £m	Other financial liabilities 2008 £m	Total non-derivative financial liabilities 2008 £m	Total discount 2008 £m	Carrying value 2008 £m
Due on demand or within one year	(4)	(12)	(1,996)	(2,012)	15	(1,997)
Due within one to two years	(18)	(1)	(52)	(71)	20	(51)
Due within two to five years	(39)	(8)	(46)	(93)	58	(35)
Due after more than five years	(320)	–	(263)	(583)	306	(277)
	(381)	(21)	(2,357)	(2,759)	399	(2,360)
Discount	236	–	163	399		
Carrying value	(145)	(21)	(2,194)	(2,360)		



## Notes to the accounts

### 20 Financial instruments continued

#### Derivative financial liabilities gross maturity

The following table details the Group's expected maturity for its derivative financial liabilities. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis (interest rate swaps) and undiscounted gross inflows/(outflows) for those derivatives that require gross settlement (foreign exchange contracts). When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates, using the yield curves existing at the reporting date.

The maturity profile of the Group's derivative financial liabilities at 31 December was as follows:

	Payable 2009 £m	Receivable 2009 £m	Net payable 2009 £m	Payable 2008 £m	Receivable 2008 £m	Net payable 2008 £m
Due on demand or within one year	(61)	54	(7)	(288)	221	(67)
Due within one to two years	(13)	5	(8)	(12)	5	(7)
Due within two to five years	(18)	1	(17)	(20)	2	(18)
Due after more than five years	(24)	–	(24)	(29)	–	(29)
Total	(116)	60	(56)	(349)	228	(121)

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's financial risk management strategy seeks to minimise the potential adverse impact of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group Treasury under policies approved by the Board. Group Treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is monitored through the Group's internal audit and risk management procedures. The Group uses derivative financial instruments to hedge certain risk exposures. The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

##### (a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign currency and commodity price risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on trading activities transacted in a currency that is not the functional currency of the operating company;
- forward foreign exchange contracts to manage the foreign currency risk associated with the Group's investments in foreign subsidiaries, associates and joint ventures;
- foreign exchange option contracts to manage the foreign currency risk associated with the settlement of net investment hedge contracts and the acquisition of foreign subsidiaries;
- commodity forward contracts to manage the commodity price risk associated with the Group's operational requirements for certain commodities, such as fuel; and
- interest rate swaps to mitigate the cash flow variability associated with variable interest rates on borrowings in PPP concessions.

There has been no material change to the Group's exposure to market risks and with the exception of the change in the net investment hedging policy outlined below there has been no change in how the Group manages those risks from 2008.

##### (i) Foreign currency risk management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US dollars, Australian dollars, Hong Kong dollars and the Euro. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group Treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange risk above pre-set materiality levels determined by the Finance Director whenever a current or future foreign currency exposure is identified. Hedge accounting is applied to these transactions above a predetermined materiality level.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transactional exposures are set out on page 121.

As at 31 December 2009, the notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied was £72m (2008: £74m). The period during which the cash flows are expected to occur is up to three years. This will affect the statement of financial performance throughout the same periods.

## 20 Financial instruments continued

### *(i) Foreign currency risk management continued*

The Group has designated forward exchange contracts against highly probable capital expenditure and inventory sales which are expected to occur in up to three years with a notional principal amount of £23m (2008: £24m) as cash flow hedges. Fair value losses of £2m (2008: £2m gains) have been taken to hedging reserves within equity in relation to these contracts. The cumulative amounts deferred in the hedging reserves relating to cash flow hedges at year end is £nil (2008: £2m gain).

The Group's investments in foreign operations are exposed to foreign currency translation risk which has previously been managed by matching significant net assets denominated in currencies other than sterling principally using forward foreign exchange contracts.

The hedging policy is reviewed periodically. During 2008 and 2009 management have amended the policy to reduce the level of net assets hedged taking account of the potential cash effect of the hedging programme against the potential effect of movements in currencies on the Group's net assets. At 31 December 2009 no foreign currency denominated net assets were hedged. At 31 December 2008 approximately 45% of the US dollar denominated net assets were hedged.

As derivative financial instruments are no longer held for US dollar denominated assets, only 2008 comparative figures are provided in respect of US dollar movements. In 2008, the effect of a 35% strengthening/weakening in US dollar exchange rates against sterling would have resulted in a £87m reduction/increase in the fair value of the financial instruments used to hedge the Group's net assets in US dollars. These movements would have been taken directly to equity and would have partially offset opposing gains/losses in the net assets denominated in foreign currencies. The percentage change applied to US dollars in 2008 has been based on the greater of the average movement in the previous five reporting periods or the actual movement in the last 12 months. The notional principal amounts of forward foreign exchange contracts designated as hedges of net investments in foreign operations at 31 December 2008 was £188m. The gains and losses in equity on hedges of net investments in foreign operations will be released to the statement of financial performance on the disposal of the underlying net investment.

No amounts in relation to hedge ineffectiveness have been charged to the statement of financial performance in relation to any foreign exchange cash flow or net investment hedges. A gain of £1m (2008: £6m) was recognised in investment income in relation to the forward point fair value movements on net investment hedge contracts.

### *(ii) Interest rate risk management*

Interest rate risk arises in the Group's PPP concessions which borrow funds at both floating and fixed interest rates and hold available-for-sale financial assets.

Floating rate borrowings expose the Group to cash flow interest rate risk. Group policy is to swap floating rate interest to fixed rate, using interest rate swaps, to hedge the cash flow variability of the interest.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the applicable period-end yield curve. The net impact of a movement in interest rates on income would therefore be immaterial.

During 2009 and 2008, the Group's PPP borrowings at variable rates of interest were denominated in sterling.

The notional principal amounts of the outstanding PPP subsidiaries' interest rate swaps outstanding at 31 December 2009 were £269m (2008: £142m) with maturities that match the maturity of the underlying borrowings ranging from one year to 25 years. At 31 December 2009, the fixed interest rates range from 4.5% to 5.1% (2008: 4.6% to 5.1%) and the principal floating rates are LIBOR.

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £12m (2008: £14m) increase/decrease in amounts taken directly by the Group to equity. This is attributable to the Group's exposure to interest rates on the available-for-sale financial assets and cash flow hedges of its PPP subsidiaries.

Interest rate risk also arises on the Group's cash and cash equivalents, term deposits and non-PPP borrowings. A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £2m (2008: £2m) increase/decrease in the Group's net investment income.

### *(iii) Commodity price risk management*

The Group is exposed to commodity price risk in its normal operations. During 2009 the Group entered into a number of commodity hedge contracts to manage some of the Group's exposure to the price of fuel. The value of fuel covered by those hedges amounted to £3m (2008: £nil). These commodity hedge contracts have been designated as cash flow hedges against highly probable future fuel purchases forecast to occur over the next two years. At 31 December 2009 the fuel hedge contracts had a fair value of £nil (2008: £nil) and no gains or losses have been recognised in respect of these contracts in the current or prior periods either in the statement of comprehensive income in respect of the effective portion of the hedge or the statement of financial performance in respect of ineffectiveness.

### *(iv) Price risk management*

The Group's principal price risk exposure arises in its PPP concessions. At the commencement of the concession an element of the unitary payment by the client is indexed to offset the effect of inflation on the concession's costs. To the extent that inflation differs from the index used, the Group is exposed to a price risk.

## Notes to the accounts

### 20 Financial instruments continued

#### (b) Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Group has a policy of depositing funds only with independently rated counterparties with a minimum long-term credit rating of A. At 31 December 2009 £27m (2008 £2m) did not meet this criterion due to the unprecedented decline in credit ratings generally and operational and relationship difficulties in transferring certain balances. No losses are anticipated from non-performance of these counterparties. The credit rating of a financial institution will determine the amount and duration for which funds may be deposited under individual risk limits set by the Board for the Group and subsidiary companies. Management monitors the utilisation of these credit limits regularly. At 31 December 2009 £27m (2008 £30m) did not meet this policy due to operational reasons.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. The Group's most significant customers are public or quasi public sector entities which generally have high credit ratings or are of a high credit quality due to the nature of the customer.

The maximum exposure to credit risk in respect of the above at 31 December is the carrying value of financial assets recorded in the financial statements, net of any allowance for losses.

#### (c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of undrawn committed borrowing facilities are set out in Note 23.1. The maturity profile of the Group's financial liabilities is set out above.

#### Fair value estimation

The Group holds a number of financial instruments on the statement of financial position at their fair values. The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value.

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities. The Group holds available-for-sale investments in mutual funds which are traded in active markets and valued based on the closing per unit market price at 31 December.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising applicable year end yield curves. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

Level 3: The fair value is based on unobservable inputs. The fair value of the Group's PPP financial assets is determined in the construction phase by applying an attributable profit margin that represents the fair value of construction services performed. In the operational phase it is determined by discounting the future cash flows allocated to the financial asset at a discount rate which is based on long-term gilt rates adjusted for the risk levels associated with the assets. The subsequent movement in the fair value is taken to equity.

There have been no transfers between these categories in the current or preceding year.

#### Financial instruments measured at fair value

	Fair value measurement 2009				Fair value measurement 2008			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale mutual fund financial assets	41	—	—	41	—	—	—	—
Financial assets – foreign currency contracts	—	1	—	1	—	5	—	5
Available-for-sale PPP financial assets	—	—	260	260	—	—	151	151
Total assets measured at fair value	41	1	260	302	—	5	151	156
Financial liabilities – foreign currency contracts	—	(1)	—	(1)	—	—	—	—
Financial liabilities – interest rate swaps	—	(24)	—	(24)	—	(106)	—	(106)
Total liabilities measured at fair value	—	(25)	—	(25)	—	(106)	—	(106)

In respect of the Level 3 PPP financial assets, a change in the discount rate would have a significant effect on the value of the asset and a 50 basis points increase/decrease, which represents management's assessment of a reasonably possible change in the risk adjusted discount rate, would lead to a £6m (2008:£1m) change in the fair value of the assets. The movement would be taken through equity. Refer to Note 17 for a reconciliation of the movement of the opening balance to the closing balance.

The carrying values less impairment provision of trade and other receivables and payables approximates their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 20 Financial instruments continued

## 20.2 Company

## Categories of financial instruments

Company	Loans and receivables at amortised cost, cash and cash equivalents 2009 £m	Financial liabilities at amortised cost 2009 £m	Available-for-sale financial assets 2009 £m	Held to maturity financial assets 2009 £m	Derivatives Note (i) 2009 £m	Loans and receivables at amortised cost, cash and cash equivalents 2008 £m	Financial liabilities at amortised cost 2008 £m	Available-for-sale financial assets 2008 £m	Held to maturity financial assets 2008 £m	Derivatives Note (i) 2008 £m
<b>Financial assets</b>										
Cash and cash equivalents	143	–	–	–	–	50	–	–	–	–
Trade and other receivables	1,084	–	–	–	–	617	–	–	–	–
Derivatives	–	–	–	–	2	–	–	–	–	71
Total	1,227	–	–	–	2	667	–	–	–	71
<b>Financial liabilities</b>										
Liability component of preference shares	–	(88)	–	–	–	–	(87)	–	–	–
Trade and other payables	–	(1,906)	–	–	–	–	(1,471)	–	–	–
Unsecured borrowings	–	(53)	–	–	–	–	(51)	–	–	–
Derivatives	–	–	–	–	(2)	–	–	–	–	(71)
Total	–	(2,047)	–	–	(2)	–	(1,609)	–	–	(71)
Net	1,227	(2,047)	–	–	–	667	(1,609)	–	–	–

## Derivatives

	Financial assets			Financial liabilities			Financial assets			Financial liabilities		
	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m
At fair value through profit and loss – forward contracts in respect of currency transactions – held for trading	1	1	2	(1)	(1)	(2)	7	3	10	(7)	(3)	(10)
At fair value through profit and loss – forward contracts relating to net investment hedging – held for trading	–	–	–	–	–	–	61	–	61	(61)	–	(61)
	1	1	2	(1)	(1)	(2)	68	3	71	(68)	(3)	(71)

The Company is responsible for executing all of the Group's external derivative instrument contracts, except for those in relation to PPP concessions. The Company's external contracts are perfectly matched with derivative contracts issued by the Company to the Group's operating companies. The Company's financial assets and financial liabilities measured at fair value are the foreign currency contracts shown in the table above. The fair value of these foreign currency contracts is determined using quoted forward exchange rates at the reporting date and yield curves derived from quoted interest rates matching the maturities of the foreign exchange contracts.

## Notes to the accounts

**20 Financial instruments continued****Non-derivative financial liabilities gross maturity**

The maturity profile of the Company's non-derivative financial liabilities at 31 December was as follows:

	Borrowings 2009 £m	Other financial liabilities 2009 £m	Total non-derivative financial liabilities 2009 £m	Total discount 2009 £m	Carrying value 2009 £m
Due on demand or within one year	(53)	(1,894)	(1,947)	13	(1,933)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(32)	(32)	32	–
Due after more than five years	–	(197)	(197)	83	(114)
	(53)	(2,134)	(2,187)	139	(2,047)
Discount	–	140	140		
Carrying value	(53)	(1,994)	(2,047)		

	Borrowings 2008 £m	Other financial liabilities 2008 £m	Total non-derivative financial liabilities 2008 £m	Total discount 2008 £m	Carrying value 2008 £m
Due on demand or within one year	(51)	(1,472)	(1,523)	27	(1,496)
Due within one to two years	–	(11)	(11)	11	–
Due within two to five years	–	(32)	(32)	32	–
Due after more than five years	–	(208)	(208)	95	(113)
	(51)	(1,723)	(1,774)	165	(1,609)
Discount	–	165	165		
Carrying value	(51)	(1,558)	(1,609)		

**Derivative financial liabilities gross maturity**

The maturity profile of the Company's derivative financial liabilities, which comprise foreign exchange contracts, at 31 December was as follows:

	Payable 2009 £m	Receivable 2009 £m	Payable 2008 £m	Receivable 2008 £m
Due on demand or within one year	(81)	80	(312)	245
Due within one to two years	(17)	16	(28)	26
Due within two to five years	–	–	–	–
Due after more than five years	–	–	–	–
Total	(98)	96	(340)	271



## 20 Financial Instruments continued

### Financial risk factors

#### (a) Market risk

##### (i) Foreign currency risk management

For the Company, there would be no material impact of any strengthening/weakening in US dollar exchange rates, Euro exchange rates or Hong Kong dollar rates against sterling because the Company enters into forward foreign exchange contracts with the Group's operating companies that offset its external forward foreign exchange contracts.

##### (ii) Interest rate risk management

A 50 basis point increase/decrease in the interest rate of each currency in which financial instruments are held would lead to a £4m (2008: £4m) decrease/increase in the Company's investment income. This is mainly attributable to the Company's exposure to interest rates on its cash and cash equivalents and term deposits and amounts due to and from its subsidiaries. There would be no effect on amounts taken directly by the Company to equity.

#### (b) Credit risk

The additional credit risk that the Company bears is in respect of amounts due from subsidiaries. There were no amounts past due at the reporting date. The maximum exposure is the carrying value of the financial assets recorded in the financial statements.

## 21 Trade and other receivables

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>Current</b>				
Trade receivables	997	815	6	6
Less: Provision for impairment of trade receivables	(41)	(17)	—	—
	956	798	6	6
Due from subsidiaries	—	—	1,048	580
Due from joint ventures and associates	19	20	—	—
Due from jointly controlled operations	1	5	—	—
Contract retentions	208	224	—	—
Accrued income	60	55	—	—
Prepayments	85	81	3	1
Due on acquisitions	—	10	—	—
	1,329	1,193	1,057	587
<b>Non-current</b>				
Trade receivables	16	19	—	—
Due from joint ventures and associates	1	—	30	31
Contract retentions	64	55	—	—
Prepayments	1	—	1	—
Due on acquisitions	7	—	—	—
	89	74	31	31
	1,418	1,267	1,088	618
<b>Comprising:</b>				
Financial assets	1,332	1,186	1,084	617
Non-financial assets – prepayments	86	81	4	1
	1,418	1,267	1,088	618

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in excess of the normal provision for impairment of trade receivables.

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. The fair value of non-current trade and other receivables amounts to £83m (2008: £69m) and has been determined by discounting future cash flows using yield curves and exchange rates prevailing at the reporting date.

It is Group policy that forward foreign exchange contracts are entered into as soon as a foreign currency trade receivable is identified.

## Notes to the accounts

### 21 Trade and other receivables continued

The movement in the provision for impairment of trade receivables is as follows:

	Group 2009 £m	Group 2008 £m
Balance at 1 January	(17)	(11)
Credited/(charged) to the statement of financial performance		
– additional provisions	(8)	(6)
– unused amounts reversed	5	1
Acquisitions of businesses	(23)	(2)
Used during the year	2	1
Balance at 31 December	(41)	(17)

The provision for impairment of trade receivables is based on a review of the financial circumstances of individual customers. The ageing of the impaired receivables is as follows:

	Group 2009 £m	Group 2008 £m
Up to three months	1	2
Three to six months	1	1
Six to nine months	2	1
Nine to 12 months	10	2
More than 12 months	27	11
	<b>41</b>	<b>17</b>

At 31 December 2009, trade receivables of £155m (2008: £127m) were past due but not impaired. These relate to a number of individual customers for whom there is no reason to believe that their debt is not recoverable. The ageing analysis of these trade receivables is as follows:

	Group 2009 £m	Group 2008 £m
Up to three months	77	84
Three to six months	33	21
Six to nine months	20	12
Nine to 12 months	15	7
More than 12 months	10	3
	<b>155</b>	<b>127</b>

The Company had no provision for impairment of trade receivables and no trade receivables that were past due but not impaired in either year.

**22 Trade and other payables**

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>Current</b>				
Trade and other payables	<b>1,137</b>	1,112	<b>9</b>	6
Accruals	<b>1,013</b>	899	<b>13</b>	14
Deferred income	<b>33</b>	20	<b>1</b>	1
Advance payments on contracts	<b>103</b>	47	<b>–</b>	–
VAT, payroll taxes and social security	<b>99</b>	72	<b>16</b>	13
Due to subsidiaries	<b>–</b>	–	<b>1,854</b>	1,421
Due to joint ventures and associates	<b>16</b>	6	<b>–</b>	–
Due to jointly controlled operations	<b>–</b>	3	<b>–</b>	–
Dividends on preference shares	<b>5</b>	5	<b>5</b>	5
Due on acquisitions	<b>6</b>	4	<b>–</b>	–
	<b>2,412</b>	2,168	<b>1,898</b>	1,460
<b>Non-current</b>				
Trade and other payables	<b>79</b>	70	<b>–</b>	–
Due on acquisitions	<b>21</b>	25	<b>–</b>	–
Accruals	<b>28</b>	21	<b>–</b>	–
Deferred income	<b>10</b>	11	<b>–</b>	–
Due to joint ventures and associates	<b>25</b>	25	<b>25</b>	25
	<b>163</b>	152	<b>25</b>	25
	<b>2,575</b>	2,320	<b>1,923</b>	1,485
<b>Comprising:</b>				
Financial liabilities	<b>2,299</b>	2,107	<b>1,906</b>	1,471
Non-financial liabilities:				
– accruals not at amortised cost	<b>134</b>	110	<b>–</b>	–
– deferred income	<b>43</b>	31	<b>1</b>	1
– VAT, payroll taxes and social security	<b>99</b>	72	<b>16</b>	13
	<b>2,575</b>	2,320	<b>1,923</b>	1,485

The maturity profile of the Group's non-current trade and other payables at 31 December was:

	Trade and other payables 2009 £m	Due on acquisitions 2009 £m	Accruals 2009 £m	Deferred income 2009 £m	Due to joint ventures and associates 2009 £m	Total 2009 £m	Trade and other payables 2008 £m	Due on acquisitions 2008 £m	Accruals 2008 £m	Deferred income 2008 £m	Due to joint ventures and associates 2008 £m	Total 2008 £m
Due within one to two years	<b>42</b>	<b>3</b>	<b>19</b>	<b>3</b>	<b>–</b>	<b>67</b>	34	6	13	4	–	57
Due within two to five years	<b>10</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>–</b>	<b>26</b>	8	7	8	5	–	28
Due after more than five years	<b>27</b>	<b>12</b>	<b>4</b>	<b>2</b>	<b>25</b>	<b>70</b>	28	12	–	2	25	67
	<b>79</b>	<b>21</b>	<b>28</b>	<b>10</b>	<b>25</b>	<b>163</b>	70	25	21	11	25	152
Fair values	<b>62</b>	<b>20</b>	<b>27</b>	<b>8</b>	<b>13</b>	<b>130</b>	57	25	20	10	13	125

The fair value of non-current trade and other payables has been determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

It is Group policy that forward foreign exchange contracts are taken out as soon as a foreign currency trade or other payable is identified. Amounts due to joint ventures and associates and accruals and deferred income are denominated in sterling.

## Notes to the accounts

## 23 Cash and cash equivalents and borrowings

## 23.1 Group

	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m
Unsecured borrowings at amortised cost:						
– bank overdrafts	(10)	–	(10)	(10)	–	(10)
– other short-term loans	(10)	(3)	(13)	(1)	(1)	(2)
Secured borrowings at amortised cost:						
– finance leases	(3)	(10)	(13)	(1)	(8)	(9)
	(23)	(13)	(36)	(12)	(9)	(21)
Cash and deposits at amortised cost	464	–	464	379	–	379
Term deposits at amortised cost	144	–	144	82	–	82
Non-PPP cash and cash equivalents	608	–	608	461	–	461
	585	(13)	572	449	(9)	440
PPP non-recourse term loans at amortised cost:						
– sterling floating rate term loan (2008–2027)	(1)	(23)	(24)	–	(27)	(27)
– sterling floating rate term loan (2011–2030)	–	(19)	(19)	–	(13)	(13)
– sterling floating rate term loan (2012–2031)	–	(13)	(13)	–	(6)	(6)
– sterling floating rate term loan (2010–2034)	(18)	(156)	(174)	–	(99)	(99)
– sterling floating rate term loan (2012–2037)	–	(28)	(28)	–	–	–
	(19)	(239)	(258)	–	(145)	(145)
PPP cash and cash equivalents	10	–	10	2	–	2
	(9)	(239)	(248)	2	(145)	(143)
Net cash/(borrowings)	576	(252)	324	451	(154)	297

The PPP project finance sterling debt obligations arise under non-recourse facilities in the concession companies Connect Roads Sunderland Ltd, Connect Roads South Tyneside Ltd, Connect Roads Derby Ltd, Transform Schools (Knowsley) Ltd and Connect CNDR Ltd. The borrowings are secured by fixed and floating charges over each concession company's right, title and interest in certain assets and/or revenues and over each concession company's shares held by their immediate parent companies, Connect Roads Sunderland Holdings Ltd, Connect Roads South Tyneside Holdings Ltd, Connect Roads Derby Holdings Ltd, Transform Schools (Knowsley) Holdings Ltd and Connect CNDR Holdings Ltd.

A significant part of the PPP non-recourse project finance floating rate term loans has been swapped into fixed rate debt by the use of interest rate swaps.

Cash, deposits and term deposits include the Group's share of amounts held by jointly controlled operations of £212m (2008: £164m).

The Group's undrawn committed borrowing facilities in respect of which all conditions precedent were satisfied at 31 December were:

	PPP non-recourse project finance 2009 £m	Other borrowings 2009 £m	Total 2009 £m	PPP non-recourse project finance 2008 £m	Other borrowings 2008 £m	Total 2008 £m
Expiring in one year or less	–	145	145	1	–	1
Expiring in more than one year but not more than two years	9	35	44	–	70	70
Expiring in more than two years	79	381	460	121	334	455
	88	561	649	122	404	526

### 23 Cash and cash equivalents and borrowings continued

The maturity profile of the Group's borrowings at 31 December is as follows:

	PPP non-recourse project finance 2009 £m	Finance leases 2009 £m	Other borrowings 2009 £m	Total 2009 £m	PPP non-recourse project finance 2008 £m	Finance leases 2008 £m	Other borrowings 2008 £m	Total 2008 £m
Due on demand or within one year	(19)	(3)	(20)	(42)	–	(1)	(11)	(12)
Due within one to two years	(8)	(1)	–	(9)	(17)	(1)	–	(18)
Due within two to five years	(31)	(6)	–	(37)	(14)	(7)	(1)	(22)
Due after more than five years	(200)	(3)	(3)	(206)	(114)	–	–	(114)
	<b>(258)</b>	<b>(13)</b>	<b>(23)</b>	<b>(294)</b>	<b>(145)</b>	<b>(9)</b>	<b>(12)</b>	<b>(166)</b>

The table below compares the book values and the fair values of the Group's borrowings at 31 December:

	Book value 2009 £m	Fair value 2009 £m	Book value 2008 £m	Fair value 2008 £m
Unsecured borrowings at amortised cost:				
– bank overdrafts	(10)	(10)	(9)	(9)
– other short-term loans	(13)	(13)	(2)	(2)
Secured borrowings at amortised cost:				
– finance leases	(13)	(13)	(10)	(10)
	<b>(36)</b>	<b>(36)</b>	<b>(21)</b>	<b>(21)</b>
PPP non-recourse term loan at amortised cost:				
– sterling floating rate term loan (2008–2027)	(24)	(24)	(27)	(27)
– sterling floating rate term loan (2011–2030)	(19)	(19)	(13)	(13)
– sterling floating rate term loan (2012–2031)	(13)	(13)	(6)	(6)
– sterling floating rate term loan (2010–2034)	(174)	(174)	(99)	(99)
– sterling floating rate term loan (2012–2037)	(28)	(28)	–	–
	<b>(258)</b>	<b>(258)</b>	<b>(145)</b>	<b>(145)</b>
Borrowings	<b>(294)</b>	<b>(294)</b>	<b>(166)</b>	<b>(166)</b>

The fair values have been determined by using yield curves and exchange rates prevailing at the reporting date and discounting future cash flows at interest rates prevailing at the reporting date.

### 23.2 Company

	Current 2009 £m	Non-current 2009 £m	Total 2009 £m	Current 2008 £m	Non-current 2008 £m	Total 2008 £m
Unsecured borrowings at amortised cost:						
– bank overdrafts	(53)	–	(53)	(51)	–	(51)
	<b>(53)</b>	<b>–</b>	<b>(53)</b>	<b>(51)</b>	<b>–</b>	<b>(51)</b>
Term deposits	143	–	143	50	–	50
Net cash/(net borrowings)	<b>90</b>	<b>–</b>	<b>90</b>	<b>(1)</b>	<b>–</b>	<b>(1)</b>

The unsecured borrowings and term deposits are sterling denominated and variable rate instruments. The bank overdrafts are repayable on demand and the term deposits matured on 4 January 2010.



## Notes to the accounts

**24 Deferred tax**

**24.1** Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The net deferred tax position at 31 December was:

	<b>Group 2009 £m</b>	Group 2008 £m	<b>Company 2009 £m</b>	Company 2008 £m
Deferred tax assets	<b>183</b>	132	<b>4</b>	–
Deferred tax liabilities	<b>(9)</b>	(10)	–	(1)
	<b>174</b>	122	<b>4</b>	(1)

The movement for the year in the net deferred tax position was as follows:

	Group £m	Company £m
At 1 January 2008	118	1
Charged to statement of financial performance	(40)	(1)
Credited/(charged) to equity	23	(1)
Businesses acquired	4	–
Transfer to current tax	17	–
At 31 December 2008	122	(1)
Charged to statement of financial performance	<b>(41)</b>	–
Credited to equity	<b>94</b>	<b>5</b>
Businesses acquired	<b>2</b>	–
Currency translation differences	<b>(3)</b>	–
At 31 December 2009	<b>174</b>	<b>4</b>

**24.2 Group**

The following are the major deferred tax assets and liabilities recognised and the movements thereon during the year:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Unrelieved trading losses £m	Share- based payments £m	Provisions £m	Fair value adjustments £m	Derivatives £m	Total £m
<b>Deferred tax assets</b>								
At 1 January 2008	1	73	48	7	15	–	–	144
(Charged)/credited to statement of financial performance	–	(23)	(21)	1	(2)	–	–	(45)
Credited/(charged) to equity	–	17	–	(4)	–	–	–	13
Businesses acquired	(1)	–	–	–	–	–	–	(1)
Currency translation differences	–	–	19	–	–	–	–	19
Transfer from deferred tax liabilities	–	–	–	–	–	19	–	19
At 31 December 2008	–	67	46	4	13	19	–	149
Reclassifications/transfers	<b>5</b>	<b>8</b>	<b>(27)</b>	–	<b>28</b>	<b>(10)</b>	<b>10</b>	<b>14</b>
Credited/(charged) to statement of financial performance	<b>5</b>	<b>(36)</b>	<b>(14)</b>	<b>(2)</b>	<b>(1)</b>	<b>(9)</b>	–	<b>(57)</b>
Credited/(charged) to equity	–	<b>98</b>	–	<b>1</b>	–	–	<b>(5)</b>	<b>94</b>
Businesses acquired	<b>4</b>	<b>29</b>	–	–	<b>1</b>	–	–	<b>34</b>
Currency translation differences	–	–	<b>(2)</b>	–	<b>(1)</b>	–	–	<b>(3)</b>
At 31 December 2009	<b>14</b>	<b>166</b>	<b>3</b>	<b>3</b>	<b>40</b>	–	<b>5</b>	<b>231</b>

## 24 Deferred tax continued

	Revaluation of properties £m	Goodwill £m	Undistributed earnings of joint ventures and associates £m	Preference shares £m	Fair value adjustments £m	Loss of IBAs £m	Total £m
<b>Deferred tax liabilities</b>							
At 1 January 2008	(1)	(7)	(8)	(7)	(3)	–	(26)
(Charged)/credited to the statement of financial performance	–	–	(2)	–	8	–	6
Businesses acquired	–	–	–	–	5	–	5
Credited to equity	–	–	–	–	9	–	9
Currency translation differences	–	(2)	–	–	–	–	(2)
Transferred to deferred tax assets	–	–	–	–	(19)	–	(19)
At 31 December 2008	(1)	(9)	(10)	(7)	–	–	(27)
Reclassifications/transfers	–	–	–	–	(11)	(3)	(14)
Credited to the statement of financial performance	–	–	10	–	6	–	16
Businesses acquired	–	–	–	–	(32)	–	(32)
At 31 December 2009	(1)	(9)	–	(7)	(37)	(3)	(57)
<b>Total net deferred tax asset</b>							<b>174</b>

At the reporting date, the Group had unused tax losses that arose over a number of years of approximately £260m (2008: £180m) which are available for offset against future profits. £50m (2008: £19m) will expire 20 years after the year in which they arose, using losses incurred in earlier years before those incurred in later years, with the first expiry in 2021. The remaining losses may be carried forward indefinitely.

At the reporting date, the undistributed reserves of subsidiaries for which deferred tax liabilities have not been recognised was £500m (2008: £350m) and for joint ventures and associates was £50m (2008: £nil). No liability has been recognised in respect of these differences because no temporary difference arises.

## 24.3 Company

The following represents the major deferred tax assets and liabilities recognised by the Company and the movements thereon:

	Deferred tax liability				Deferred tax assets		Net deferred tax assets/ (liability) £m
	Preference shares £m	Share-based payments £m	Retirement benefit obligations £m	Provisions £m	Accelerated tax depreciation £m	Total £m	
At 1 January 2008	(7)	4	2	2	–	8	1
Charged to statement of financial performance	–	(1)	–	–	–	(1)	(1)
Charged to equity	–	(1)	–	–	–	(1)	(1)
At 31 December 2008	(7)	2	2	2	–	6	(1)
(Charged)/credited to statement of financial performance	–	–	(2)	1	1	–	–
Credited to equity	–	–	5	–	–	5	5
At 31 December 2009	(7)	2	5	3	1	11	4

## Notes to the accounts

### 25 Retirement benefit obligations

#### a) Group

The Group, through trustees, operates a number of defined benefit and defined contribution pension schemes. Defined benefit schemes provide benefits based on employees' pensionable service and their pensionable salary. Defined contribution schemes are those where the Group's obligation is limited to the amount that it contributes to the scheme and the scheme members bear the investment and actuarial risks.

The majority of the Group's defined benefit schemes are funded. Defined benefit contributions are determined in consultation with the trustees, after taking actuarial advice.

The Group's main scheme is the Balfour Beatty Pension Fund ("BBPF"), which includes defined benefit and defined contribution sections. The defined benefit section is closed to new members with the exception of certain employees transferring under TUPE. During 2008 and 2009 the Group implemented measures to limit the increase in pensionable pay of certain groups of in-service defined benefit members, giving rise to a reduction in past service liabilities of £100m (2008: £60m), which has been classified as an exceptional item in the statement of financial performance. On 31 May 2009 the Mansell plc Pension Scheme and the Hall & Tawse Retirement Benefit Plan ("Mansell schemes") merged with the BBPF.

The investment strategy of the BBPF scheme is to hold assets of appropriate liquidity and marketability to generate income and capital growth to meet, together with any contributions from the Group, the cost of current and future benefits. The BBPF invests in equities in anticipation that, over the longer term, they will grow in value faster than the liabilities. The majority of the BBPF equities are in the form of pooled funds. The BBPF invests in fixed and index-linked bonds and inflation swaps in order to match the duration and inflation exposure of a portion of the liabilities. The BBPF invests in corporate fixed-interest bonds in anticipation that, over the longer term, they will outperform equivalent government bonds. A portion of the corporate bonds is overlaid with inflation swaps in order to create a better match between the assets and the inflation-linked characteristics of the liabilities. The performance of equities and bonds is measured against market indices. Where the BBPF invests in funds of hedge funds this is in order to improve diversification. There are three funds of hedge funds to further improve diversification. The performance of the fund of hedge fund managers is measured against three month LIBOR.

Certain Group employees are members of the Balfour Beatty Shared Cost section of the Railways Pension Scheme ("Railways Pension Scheme"), which is closed to new members with the exception of certain employees transferring under TUPE. The economic interest of the Group in this shared cost scheme is approximately 60% of the scheme's assets and liabilities, based on the relevant provisions of the trust deed and rules and trustee guidelines regarding future surplus apportionments and deficit financing. Parsons Brinckerhoff Ltd operates a defined benefit scheme, which is closed to new members ("Parsons Brinckerhoff Scheme"). The Parsons Brinckerhoff Scheme has a legal charge over a Group leasehold property with a book value of £6m (2008: £nil). With the exception of the Parsons Brinckerhoff Scheme, active members continue to accrue benefits for future service. Other schemes comprise funded and unfunded post-retirement benefit obligations in Europe and North America, the majority of which arrangements are closed to new entrants, and deferred compensation schemes in the USA, where an element of employees' compensation is deferred and invested in available-for-sale assets as disclosed in Note 16.1 for the ultimate benefit of the employees in a trust, the assets of which are available to Group creditors in the event of insolvency.

The membership of the principal schemes is as follows:

	Balfour Beatty Pension Fund 2009		Railways Pension Scheme 2009		Parsons Brinckerhoff Scheme 2009		Balfour Beatty Pension Fund 2008		Railways Pension Scheme 2008		Mansell schemes 2008	
	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m	Number of members	Defined benefit obligations £m
Defined benefit												
– active members	4,958	747	397	47	–	–	5,338	514	425	39	453	54
– deferred pensioners	14,589	637	1,561	52	1,115	87	13,363	406	1,594	36	1,513	53
– pensioners, widow(er)s and dependants	18,671	941	1,318	78	1,108	79	17,063	813	1,256	63	1,298	81
Defined contribution	7,449	–	–	–	1,902	–	6,870	–	–	–	–	–
<b>Total</b>	<b>45,667</b>	<b>2,325</b>	<b>3,276</b>	<b>177</b>	<b>4,125</b>	<b>166</b>	<b>42,634</b>	<b>1,733</b>	<b>3,275</b>	<b>138</b>	<b>3,264</b>	<b>188</b>

IAS 19 governs the accounting for defined benefit schemes in the Group's financial statements. Obligations are calculated using the projected unit credit method and discounted to a net present value using the market yield on a high quality corporate bond. Pension expense relating to current service cost is charged to contracts or overheads based on the function of scheme members and is included in cost of sales and net operating expenses. The net interest income arising from the expected return on plan assets and the interest on scheme obligations is credited to investment income or finance charges as appropriate. Actuarial gains and losses are reported in full in the statement of comprehensive income. The IAS 19 accounting valuation is set out in 25.1 below.

A different calculation is used for the regular valuations undertaken by the scheme trustees to determine the future company contribution level necessary so that over time the scheme assets will meet the scheme liabilities. The principal difference between the two methods is that under the funding basis the liabilities are discounted using a rate of return reflecting the composition of the assets in the scheme, rather than the rate of return on a high quality corporate bond as required by IAS 19 for the accounting basis. Details of the previous formal funding basis valuations are set out in 25.2 below.

The assets of the schemes do not include any direct holdings of the Group's financial instruments, nor any property occupied by, or other assets of the Group. The Parsons Brinckerhoff Scheme has an interest in a property under an operating lease that is occupied under an operating sublease by a Group company which pays an annual rental of £0.2m (2008: £nil).

## 25 Retirement benefit obligations continued

### 25.1 IAS 19 accounting valuation

The principal actuarial assumptions for the IAS 19 accounting valuations of the Group's principal schemes are as follows:

	Balfour Beatty Pension Fund 2009 %	Railways Pension Scheme 2009 %	Parsons Brinckerhoff Scheme 2009 %	Balfour Beatty Pension Fund 2008 %	Railways Pension Scheme 2008 %	Mansell schemes 2008 %
Discount rate on obligations	5.65	5.65	5.65	6.45	6.45	6.45
Expected return on plan assets	5.93	7.30	6.75	6.27	7.45	6.40
Inflation rate	3.50	3.50	3.50	2.80	2.80	2.80
Future increases in pensionable salary:						
– certain members of the Balfour Beatty Pension Fund	–	–	–	2.80	–	–
– other members	5.00	5.00	–	4.30	4.30	4.30
Rate of increase in pensions in payment (or such other rate as is guaranteed)	3.50	3.50	3.50	2.80	2.80	2.80

The BBPF actuary undertakes regular mortality investigations based on the experience exhibited by pensioners of the BBPF and due to the size of the membership of the BBPF (45,667 members at 31 December 2009) is able to make comparisons of this experience with the mortality rates set out in the various published mortality tables. The actuary is also able to monitor changes in the exhibited mortality over time. This research is taken into account in the Group's mortality assumptions across its various defined benefit schemes.

The mortality tables adopted for the 2009 and 2008 IAS 19 valuations are the 1992 series calendar year 2007 tables, with future improvements applicable to each member's year of birth under the medium cohort effect from 2007.

	2009 Average life expectancy at 65 years of age	2008 Average life expectancy at 65 years of age
<b>Members in receipt of a pension</b>		
– Male	20.4 years	20.3 years
– Female	23.4 years	23.4 years
<b>Members not yet in receipt of a pension (current age 50)</b>		
– Male	21.4 years	21.3 years
– Female	24.3 years	24.3 years

The composition of the members of the Parsons Brinckerhoff Scheme is different to the other schemes and allowance has been made for approximately three further years of life expectancy for members of this scheme compared to members of the other schemes.

The amounts recognised in the statement of financial position are as follows:

	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Other schemes* 2009 £m	Total 2009 £m	Balfour Beatty Pension Fund 2008 £m	Railways Pension Scheme 2008 £m	Mansell schemes 2008 £m	Other schemes 2008 £m	Total 2008 £m
Present value of obligations	(2,325)	(177)	(166)	(89)	(2,757)	(1,733)	(138)	(188)	(43)	(2,102)
Fair value of plan assets	1,911	134	113	13	2,171	1,540	120	170	11	1,841
Liability in the statement of financial position	(414)	(43)	(53)	(76)	(586)	(193)	(18)	(18)	(32)	(261)
Available-for-sale mutual funds* (Note 16.1)	–	–	–	41	41	–	–	–	–	–

The defined benefit obligation comprises £76m (2008: £29m) arising from wholly unfunded plans and £2,681m (2008: £2,073m) arising from plans that are wholly or partly funded.

\* Available-for-sale investments in mutual funds of £41m (2008: £nil) are held by the Group to satisfy the Group's deferred compensation obligations.

## Notes to the accounts

**25 Retirement benefit obligations continued**

The amounts recognised in the statement of financial performance are as follows:

	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m	Balfour Beatty Pension Fund 2008 £m	Railways Pension Scheme 2008 £m	Mansell schemes 2008 £m	Other schemes 2008 £m	Total 2008 £m
Current service cost	(27)	(2)	–	(1)	(2)	(32)	(38)	(3)	(3)	(1)	(45)
Defined contribution charge	(22)	–	(2)	–	(15)	(39)	(16)	–	–	(12)	(28)
Included in employee costs (Note 5)	(49)	(2)	(2)	(1)	(17)	(71)	(54)	(3)	(3)	(13)	(73)
Expected return on plan assets	101	8	1	5	1	116	117	11	13	–	141
Interest cost	(114)	(8)	(2)	(5)	(2)	(131)	(113)	(9)	(12)	(2)	(136)
Net investment (expense)/income (Notes 6 and 7)	(13)	–	(1)	–	(1)	(15)	4	2	1	(2)	5
Total charged to profit before exceptional items	(62)	(2)	(3)	(1)	(18)	(86)	(50)	(1)	(2)	(15)	(68)
Exceptional reduction in pension past service liabilities (Note 8)	100	–	–	–	–	100	60	–	–	–	60
Total credited/(charged) to statement of financial performance	38	(2)	(3)	(1)	(18)	14	10	(1)	(2)	(15)	(8)

The amounts recognised in the statement of comprehensive income are as follows:

	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m	Balfour Beatty Pension Fund 2008 £m	Railways Pension Scheme 2008 £m	Mansell schemes 2008 £m	Other schemes 2008 £m	Total 2008 £m
Actuarial (losses)/gains on pension scheme obligations	(449)	(35)	5	(5)	(3)	(487)	314	30	26	–	370
Actuarial gains/(losses) on pension scheme assets	135	9	1	(9)	1	137	(350)	(47)	(35)	–	(432)
Total actuarial (losses)/gains recognised in the statement of comprehensive income (Note 28.1)	(314)	(26)	6	(14)	(2)	(350)	(36)	(17)	(9)	–	(62)
Cumulative gains/(losses) recognised in reserves	(390)	(33)	6	–	(1)	(418)	(76)	(7)	14	1	(68)

BBPF defined contribution employer contributions paid and charged to the statement of financial performance have been separately identified in the table above and the defined contribution section assets and liabilities amounting to £87m (2008: £52m) have been excluded from the tables on pages 135 to 139. Defined contribution charges for other schemes include contributions to multi-employer pension schemes.

The actual return on plan assets was a gain of £253m (2008: loss of £291m).



**25 Retirement benefit obligations continued**

The movement in the present value of obligations is as follows:

	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m	Balfour Beatty Pension Fund 2008 £m	Railways Pension Scheme 2008 £m	Mansell schemes 2008 £m	Other schemes 2008 £m	Total 2008 £m
At 1 January	(1,733)	(138)	–	(188)	(43)	(2,102)	(2,036)	(164)	(207)	(37)	(2,444)
Currency translation	–	–	–	–	1	1	–	–	–	(6)	(6)
Mansell scheme transfer	(196)	–	–	196	–	–	–	–	–	–	–
Other transfers	–	–	–	–	(20)	(20)	–	–	–	–	–
Service cost	(27)	(2)	–	(1)	(2)	(32)	(38)	(3)	(3)	(1)	(45)
Exceptional past service gain	100	–	–	–	–	100	60	–	–	–	60
Interest cost	(114)	(8)	(2)	(5)	(2)	(131)	(113)	(9)	(12)	(2)	(136)
Actuarial (losses)/gains	(449)	(35)	5	(5)	(3)	(487)	314	30	26	–	370
Contributions from members	(9)	–	–	(1)	–	(10)	(11)	–	(1)	–	(12)
Benefits paid	103	6	2	4	6	121	91	8	9	4	112
Businesses acquired	–	–	(171)	–	(26)	(197)	–	–	–	(1)	(1)
At 31 December	(2,325)	(177)	(166)	–	(89)	(2,757)	(1,733)	(138)	(188)	(43)	(2,102)

The movement in the fair value of plan assets is as follows:

	Balfour Beatty Pension Fund 2009 £m	Railways Pension Scheme 2009 £m	Parsons Brinckerhoff Scheme 2009 £m	Mansell schemes 2009 £m	Other schemes 2009 £m	Total 2009 £m	Balfour Beatty Pension Fund 2008 £m	Railways Pension Scheme 2008 £m	Mansell schemes 2008 £m	Other schemes 2008 £m	Total 2008 £m
At 1 January	1,540	120	–	170	11	1,841	1,796	160	191	11	2,158
Currency translation	–	–	(1)	–	1	–	–	–	–	1	1
Mansell scheme transfer	167	–	–	(167)	–	–	–	–	–	–	–
Expected return on plan assets	101	8	1	5	1	116	117	11	13	–	141
Actuarial gains/(losses)	135	9	1	(9)	1	137	(350)	(47)	(35)	–	(432)
Contributions from employer – regular funding	31	2	–	1	–	34	28	2	2	–	32
Contributions from employer – deficit funding	31	1	–	3	–	35	29	2	7	–	38
Contributions from members	9	–	–	1	–	10	11	–	1	–	12
Benefits paid	(103)	(6)	(2)	(4)	(1)	(116)	(91)	(8)	(9)	(1)	(109)
Businesses acquired	–	–	114	–	–	114	–	–	–	–	–
At 31 December	1,911	134	113	–	13	2,171	1,540	120	170	11	1,841

The fair value and expected rates of return on the assets held by the schemes at 31 December are as follows:

	Balfour Beatty Pension Fund		Railways Pension Scheme		Parsons Brinckerhoff Scheme		Other schemes	
	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m	Expected rate of return 2009 %	Value 2009 £m
Equities	8.30	658	8.30	90	8.30	65	–	–
Bonds								
– index linked gilts	4.50	259	4.30	13	4.30	19	–	–
– fixed rate gilts	4.30	11	–	–	4.30	4	–	–
– corporate and other bonds	4.60	834	5.30	18	5.30	18	4.00	13
Funds of hedge funds	6.60	78	–	–	–	–	–	–
Property	–	–	6.40	13	–	–	–	–
Cash and other net assets	4.40	71	–	–	4.40	7	–	–
Rate of return/total	5.93	1,911	7.30	134	6.75	113	4.00	13

## Notes to the accounts

## 25 Retirement benefit obligations continued

	Balfour Beatty Pension Fund		Railways Pension Scheme		Mansell schemes		Other schemes	
	Expected rate of return 2008 %	Value 2008 £m	Expected rate of return 2008 %	Value 2008 £m	Expected rate of return 2008 %	Value 2008 £m	Expected rate of return 2008 %	Value 2008 £m
Equities	8.35	445	8.35	78	8.35	84	–	–
Bonds								
– index linked gilts	3.80	351	–	–	3.80	15	–	–
– fixed rate gilts	4.00	110	–	–	3.80	34	–	–
– corporate and other bonds	6.70	542	5.70	30	5.70	32	4.17	11
Funds of hedge funds	6.30	70	–	–	–	–	–	–
Property	–	–	6.10	12	–	–	–	–
Cash and other net assets	3.60	22	–	–	3.60	5	–	–
Rate of return/total	6.27	1,540	7.45	120	6.40	170	4.17	11

The expected rates of return on scheme assets were determined as the average of the expected returns on the assets held by the scheme on 31 December.

The rates of return for each class were determined as follows:

- equities, the long-term rates of return on equities, funds of hedge funds and property are derived from current risk free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns, current market conditions and forward looking views from market participants;
- bonds: the rate has been set to reflect the yields available on the gilts and corporate bond holdings held at 31 December;
- cash and other net assets: this class principally comprises inflation rate swaps and cash holdings and the rate adopted reflects current short-term returns on cash deposits.

The estimated amounts of contributions expected to be paid to the principal defined benefit schemes during 2010 are as follows:

	Balfour Beatty Pension Fund 2010 £m	Railways Pension Scheme 2010 £m	Parsons Brinckerhoff Scheme 2010 £m	Total 2010 £m
Regular funding	37	2	–	39
Deficit funding	23	1	6	30
Total	60	3	6	69

The estimated deficit funding of £23m in the BBPF above is benefiting from a prepayment of £10m in 2009. Additional payments estimated at up to £20m may be paid in 2010 to fund an enhanced transfer value exercise.

The sensitivity of the Group's pension obligations and of the prospective 2010 charge to the Group's statement of financial performance to different actuarial assumptions is as follows:

	Percentage points/years	%	Increase/ (decrease) in obligations £m	Increase/ (decrease) in service cost £m	Increase/ (decrease) in finance cost £m	Increase/ (decrease) in investment return £m	Increase/ (decrease) in total pension cost £m
Increase in discount rate	0.5%	(7.7)	(204)	(5)	1	–	(4)
Increase in inflation rate	0.5%	5.7	151	2	8	–	10
Increase in salary above inflation	0.5%	0.5	13	1	1	–	2
Increase in return on assets	0.5%	–	–	–	–	11	(11)
Increase in life expectancy	one year	3.6	96	2	5	–	7

The sensitivities relating to the discount rate, inflation rate and expected return on assets in respect of the pension cost elements in the statement of financial performance are shown for information only. The amounts that will be included in the 2010 statement of financial performance are derived from the market conditions at 1 January 2010 and subsequent changes in market conditions will have no effect on the 2010 statement of financial performance and will be reflected as actuarial adjustments in the statement of comprehensive income.

## 25 Retirement benefit obligations continued

Year end historic information for the Group's post-retirement benefit schemes is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation at end of year	<b>(2,757)</b>	(2,102)	(2,444)	(2,375)	(2,217)
Fair value of assets at end of year	<b>2,171</b>	1,841	2,158	2,087	1,937
Funded status at end of year	<b>(586)</b>	(261)	(286)	(288)	(280)
Experience adjustment for liabilities	<b>(9)</b>	(17)	(56)	(52)	24
Experience adjustment for assets	<b>137</b>	(432)	(21)	21	138

### 25.2 Funding valuations

The latest formal funding valuations are detailed below.

	Balfour Beatty Pension Fund £m	Railways Pension Scheme £m	Mansell schemes		Parsons Brinckerhoff Scheme £m
			Hall & Tawse Plan £m	Mansell plc scheme £m	
Date of last formal funding valuation	31/03/2007	31/12/2007	31/03/2005	31/07/2005	31/03/2008
<b>Scheme surplus/(deficit)</b>					
Market value of assets	1,693	158	90	51	119
Present value of scheme liabilities	(1,770)	(156)	(113)	(65)	(169)
(Deficit)/surplus in defined benefit scheme	(77)	2	(23)	(14)	(50)
<b>Funding level</b>	95.6%	101.3%	79.0%	78.0%	70.6%

The Mansell schemes' 2008 formal funding valuations were superseded by the merger of these schemes with the BBPF, the next formal valuation of which will be at 31 March 2010.

### b) Company

Certain employees of the Company are members of the BBPF. Assets, liabilities, income and expenditure relating to this fund are allocated to Group companies participating in the scheme in proportion to pensionable payroll for the year. The Company's share of the net IAS 19 deficit was £18m (2008: £7m).

## 26 Provisions

	Group			Company
	Employee provisions £m	Contract provisions £m	Other provisions £m	Other provisions £m
At 1 January 2009	<b>34</b>	<b>62</b>	<b>70</b>	<b>11</b>
Currency translation differences	–	<b>(1)</b>	<b>(2)</b>	–
Transfer to other Group companies	–	–	–	<b>(2)</b>
Charged to the statement of financial performance:				
– additional provisions	<b>9</b>	<b>65</b>	<b>34</b>	<b>3</b>
– unused amounts reversed	<b>(2)</b>	<b>(8)</b>	<b>(10)</b>	<b>(2)</b>
Utilised during the year	<b>(5)</b>	<b>(13)</b>	<b>(32)</b>	<b>(1)</b>
Businesses acquired	–	<b>13</b>	<b>8</b>	–
At 31 December 2009	<b>36</b>	<b>118</b>	<b>68</b>	<b>9</b>

Employee provisions comprise obligations to employees other than retirement benefit obligations. Contract provisions relate to provisions on contracts, including fault and warranty provisions, and other provisions principally comprise environmental provisions, legal claims and costs and onerous lease and other commitments.

The majority of provisions, other than employee provisions, are expected to be utilised within five years. Provision is made for the Directors' best estimate of known legal claims, investigations and legal actions in progress.

## Notes to the accounts

## 27 Share capital

## 27.1 Ordinary shares of 50p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2008	696	348	433	216
Shares issued	–	–	45	23
At 31 December 2008	696	348	478	239
Shares authorised/issued	<b>300</b>	<b>150</b>	<b>207</b>	<b>104</b>
At 31 December 2009	<b>996</b>	<b>498</b>	<b>685</b>	<b>343</b>

All issued ordinary shares are fully paid. Ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company.

Ordinary shares issued during the year credited as fully paid:

	Ordinary shares 2009 Number	Consideration 2009 £m	Ordinary shares 2008 Number	Consideration 2008 £m
Rights issue (Note 28.2)	<b>205,502,237</b>	<b>355</b>	–	–
Share placing (Note 28.2)	–	–	43,320,411	182
Savings-related share options exercised	<b>1,337,199</b>	<b>3</b>	1,286,053	3
Executive share options exercised	<b>433,694</b>	<b>1</b>	334,927	1
	<b>207,273,130</b>	<b>359</b>	44,941,391	186

At 31 December share options outstanding were as follows:

Year of issue	Exercise price Pence (adjusted)	Normally exercisable in periods to	Ordinary shares 2009 Number	Ordinary shares 2008 Number (adjusted)
<b>Savings-related</b>				
2003	115.8	December 2008	–	43,475
2004	182.8	December 2009	<b>47,680</b>	788,232
2005	217.7	December 2010	<b>726,234</b>	903,997
2006	265.6	December 2011	<b>840,083</b>	1,854,594
2007	338.7	December 2012	<b>2,147,025</b>	2,489,415
2008	315.2	December 2013	<b>2,383,749</b>	2,770,409
2009	249.0	December 2014	<b>2,756,731</b>	–
			<b>8,901,502</b>	8,850,122
<b>Executive</b>				
1999	95.7	November 2009	–	87,055
2000	68.8	April 2010	<b>43,059</b>	214,459
2001	174.1	June 2011	<b>157,793</b>	197,980
2002	207.2	April 2012	<b>311,786</b>	351,350
2003	150.6	April 2013	<b>461,652</b>	519,062
2004	227.3	April 2014	<b>783,268</b>	881,439
			<b>1,757,558</b>	2,251,345

Following the rights issue described in Note 28.2, adjustments were made to the number of shares under option and the exercise prices in accordance with the HMRC approved standard formula. In the tables above, the share options outstanding at 31 December 2008 have been adjusted onto a comparable basis.

On 18 May 2009, options were granted over 2,883,694 (adjusted) ordinary shares under the Balfour Beatty savings-related share option scheme, at 249p (adjusted) per share, and these are normally exercisable in the periods from July 2012 to December 2012 and from July 2014 to December 2014 depending upon the length of savings contract chosen by the participant.

## 27 Share capital continued

### 27.2 Cumulative convertible redeemable preference shares of 1p each

	Authorised		Issued	
	Million	£m	Million	£m
At 1 January 2008	177	2	112	–
Shares repurchased	–	–	–	–
At 31 December 2008	177	2	112	–
Shares repurchased	–	–	–	–
At 31 December 2009	<b>177</b>	<b>2</b>	<b>112</b>	–

All issued preference shares are fully paid. During the year, no preference shares were repurchased for cancellation by the Company. In 2008, 300,017 preference shares were repurchased for cancellation by the Company for a total consideration of £407,337 at an average price of 135.8p.

Holders of preference shares are entitled to a preferential dividend equivalent to a gross payment of 10.75p per preference share per annum, payable half-yearly. Any preference shares still outstanding are redeemable on 1 July 2020 at £1 each, together with any arrears or accruals of dividend, unless the holder exercises any option granted by the Company to extend the redemption date. The maximum redemption value of all of the issued and outstanding preference shares, excluding any arrears or accruals of dividend, was £112m at 31 December 2009 (2008: £112m).

At the option of the holder, preference shares are convertible on the first day of the next calendar month following receipt of the conversion notice into new Balfour Beatty plc ordinary shares effectively on the basis of 24.69136 ordinary shares for every 100 preference shares, subject to adjustment in certain circumstances. The Company is entitled to convert all outstanding preference shares into ordinary shares if there are fewer than 44,281,239 preference shares in issue or if the average of the closing mid-market price for a Balfour Beatty plc ordinary share during a 30 day period exceeds 810p, subject to adjustment in certain circumstances.

The preference shares carry no voting rights at a general meeting of the Company, except where the dividend is six months or more in arrears, or where the business of the meeting includes a resolution which directly affects the rights and privileges attached to the preference shares or a resolution for the winding-up of the Company. On a winding-up of the Company, holders are entitled to receive the sum of £1 per preference share, together with any arrears or accruals of dividend, in priority to any payment on any other class of shares.

The preference shares are regarded as a compound instrument, comprising an equity and a liability component. The fair value of the liability component at the date of issue, included under non-current liabilities, was estimated using the prevailing market interest rate of 13.5% for a similar non-convertible instrument. The difference between the proceeds of issue of the preference shares and the fair value assigned to the liability component, representing the value of the equity conversion component, is included in shareholders' equity, net of deferred tax.

The liability component recognised in the statement of financial position is calculated as follows:

	2009 £m	2008 £m
Redemption value of shares in issue at 1 January	<b>112</b>	112
Equity component	<b>(16)</b>	(16)
Deferred tax and interest element	<b>(9)</b>	(9)
Liability component at 1 January at amortised cost	<b>87</b>	87
Interest accretion	<b>1</b>	–
Repurchase of preference shares	–	–
Liability component at 31 December at amortised cost	<b>88</b>	87

The fair value of the liability component of the preference shares at 31 December 2009 amounted to £153m (2008: £134m). The fair value is determined by using the market price of the preference shares at the reporting date.

Interest expense on the preference shares is calculated using the effective interest method.



## Notes to the accounts

## 28 Movements in equity

## 28.1 Group

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Hedging reserves £m	PPP financial assets £m	Currency translation reserve £m	Other reserves		(Accumulated losses)/ Retained profits £m	Non-controlling interests £m	Total £m
									Merger reserve £m	Other £m			
At 1 January 2008	216	52	16	164	178	(4)	–	(2)	–	15	(152)	–	483
Net profit for the year	–	–	–	–	72	–	–	–	–	–	124	–	196
Actuarial losses on retirement benefit obligations	–	–	–	–	(14)	–	–	–	–	–	(62)	–	(76)
Fair value revaluations													
– PPP financial assets	–	–	–	–	100	–	2	–	–	–	–	–	102
– PPP cash flow hedges	–	–	–	–	(73)	(34)	–	–	–	–	–	–	(107)
– other cash flow hedges	–	–	–	–	(3)	2	–	–	–	–	–	–	(1)
Changes in fair value of net investment hedges	–	–	–	–	–	–	–	(105)	–	–	–	–	(105)
Currency translation differences	–	–	–	–	27	–	–	189	–	–	–	1	217
Tax on items taken directly to equity	–	–	–	–	(4)	10	(1)	3	–	–	17	–	25
Total comprehensive income/ (expense) for the year	–	–	–	–	105	(22)	1	87	–	–	79	1	251
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	(54)	–	(54)
Joint ventures' and associates' dividends	–	–	–	–	(53)	–	–	–	–	–	53	–	–
Issue of ordinary shares	23	2	–	–	–	–	–	–	161	–	–	–	186
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	4	(8)	–	(4)
Non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	3	3
Transfers	–	–	–	(25)	–	–	–	–	(161)	–	186	–	–
At 31 December 2008	239	54	16	139	230	(26)	1	85	–	19	104	4	865
Net profit for the year	–	–	–	–	<b>83</b>	–	–	–	–	–	<b>130</b>	–	<b>213</b>
Actuarial losses on retirement benefit obligations	–	–	–	–	–	–	–	–	–	–	<b>(350)</b>	–	<b>(350)</b>
Fair value revaluations													
– PPP financial assets	–	–	–	–	<b>(79)</b>	–	<b>(1)</b>	–	–	–	–	–	<b>(80)</b>
– PPP cash flow hedges	–	–	–	–	<b>(11)</b>	<b>16</b>	–	–	–	–	–	–	<b>5</b>
– other cash flow hedges	–	–	–	–	–	<b>(2)</b>	–	–	–	–	–	–	<b>(2)</b>
Changes in fair value of net investment hedges	–	–	–	–	–	–	–	<b>18</b>	–	–	–	–	<b>18</b>
Currency translation differences	–	–	–	–	<b>(10)</b>	–	–	<b>(67)</b>	–	–	–	–	<b>(77)</b>
Tax on items taken directly to equity	–	–	–	–	<b>26</b>	<b>(5)</b>	–	–	–	–	<b>99</b>	–	<b>120</b>
Total comprehensive income/ (expense) for the year	–	–	–	–	<b>9</b>	<b>9</b>	<b>(1)</b>	<b>(49)</b>	–	–	<b>(121)</b>	–	<b>(153)</b>
Ordinary dividends	–	–	–	–	–	–	–	–	–	–	<b>(63)</b>	–	<b>(63)</b>
Joint ventures' and associates' dividends	–	–	–	–	<b>(75)</b>	–	–	–	–	–	<b>75</b>	–	–
Issue of ordinary shares	<b>104</b>	<b>3</b>	–	–	–	–	–	–	<b>252</b>	–	–	–	<b>359</b>
Rights issue expenses	–	–	–	–	–	–	–	–	–	–	<b>(3)</b>	–	<b>(3)</b>
Movements relating to share-based payments	–	–	–	–	–	–	–	–	–	<b>1</b>	–	–	<b>1</b>
Transfers	–	–	–	<b>(107)</b>	–	–	–	–	<b>(3)</b>	–	<b>110</b>	–	–
At 31 December 2009	<b>343</b>	<b>57</b>	<b>16</b>	<b>32</b>	<b>164</b>	<b>(17)</b>	–	<b>36</b>	<b>249</b>	<b>20</b>	<b>102</b>	<b>4</b>	<b>1,006</b>

**28 Movements in equity continued****28.2 Company**

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Other reserves		Retained profits/ (accumulated losses) £m	Total £m
					Merger reserve £m	Other £m		
At 1 January 2008	216	52	16	164	–	48	185	681
Net loss for the year	–	–	–	–	–	–	(28)	(28)
Actuarial losses on retirement benefit obligations	–	–	–	–	–	–	(1)	(1)
Tax on items taken directly to equity	–	–	–	–	–	–	(1)	(1)
Total comprehensive expense for the year	–	–	–	–	–	–	(30)	(30)
Ordinary dividends	–	–	–	–	–	–	(54)	(54)
Issue of ordinary shares	23	2	–	–	161	–	–	186
Movements relating to share-based payments	–	–	–	–	–	16	(11)	5
Transfers	–	–	–	(25)	(161)	–	186	–
At 31 December 2008	239	54	16	139	–	64	276	788
Net profit for the year	–	–	–	–	–	–	167	167
Actuarial losses on retirement benefit obligations	–	–	–	–	–	–	(16)	(16)
Tax on items taken directly to equity	–	–	–	–	–	–	5	5
Total comprehensive income for the year	–	–	–	–	–	–	156	156
Ordinary dividends	–	–	–	–	–	–	(63)	(63)
Issue of ordinary shares	104	3	–	–	252	–	–	359
Rights issue expenses	–	–	–	–	–	–	(3)	(3)
Movements relating to share-based payments	–	–	–	–	–	4	(3)	1
Transfers	–	–	–	(107)	(3)	–	110	–
At 31 December 2009	343	57	16	32	249	68	473	1,238

The retained profits of Balfour Beatty plc are wholly distributable. By special resolution on 13 May 2004, confirmed by the court on 16 June 2004, the share premium account was reduced by £181m and the £4m capital redemption reserve was cancelled, effective on 25 June 2004, and a special reserve of £185m was created. This reserve becomes distributable to the extent of future increases in share capital and share premium account, of which £107m occurred in 2009 (2008: £25m).

On 17 September 2009 the Company announced a fully underwritten 3 for 7 rights issue at a subscription price of 180p per new ordinary share to substantially finance the acquisition of Parsons Brinckerhoff Inc. The rights issue and acquisition were approved by the holders of the Company's ordinary shares at a general meeting on 7 October 2009 and the rights issue closed on 22 October 2009. 205,502,237 new ordinary shares were issued, raising £352m after issue costs and expenses of £18m. The rights issue utilised a cash box structure and therefore qualified for merger relief under Section 612 of the Companies Act 2006 so that the premium arising was not required to be credited to the Company's share premium account.

The cash box entity, Bentworth No. 2 Ltd (Bentworth 2), issued redeemable preference shares in consideration for the receipt of the cash proceeds net of issue costs arising from the rights issue. The Company's new ordinary shares were issued as consideration for the transfer to it of the shares in Bentworth 2 which it did not already own. As a result, the issue qualified for merger relief under Section 612 of the Companies Act 2006 so that the £252m excess of the value of the acquired shares in Bentworth 2 over the nominal value of the ordinary shares issued by the Company was credited to the Company's merger reserve, which was subsequently charged with £3m of rights issue expenses. The rights issue was directly associated with the acquisition of Parsons Brinckerhoff Inc and therefore the merger reserve is not available for distribution to shareholders.

On 20 May 2008, 43,320,411 ordinary shares were issued and placed with institutions at a price of 430p per share. The net proceeds after issue costs were £182m. The placing utilised a cash box structure. The cash box entity, Bentworth Ltd, issued redeemable preference shares in consideration for the receipt of the cash proceeds net of issue costs arising from the placing. The Company's ordinary shares were issued as consideration for the transfer to it of the shares in Bentworth Ltd which it did not already own. As a result, the placing qualified for merger relief under Section 131 of the Companies Act 1985 so that the £161m excess of the value of the acquired shares in Bentworth Ltd over the nominal value of the ordinary shares issued by the Company was credited to the Company's merger reserve. The preference shares in Bentworth Ltd were subsequently redeemed and the Company transferred £161m from the merger reserve to the profit and loss reserve, which is available for distribution to shareholders.

**28.3** The retained profits in the Group and the retained profit of the Company are stated net of investments in Balfour Beatty plc ordinary shares of 50p each acquired by the Group's employee discretionary trust, the Balfour Beatty Employee Share Ownership Trust, to satisfy awards under the Balfour Beatty performance share plan and the Balfour Beatty deferred bonus plan. In 2009, 0.8m (2008: 3.0m) shares were purchased at a cost of £3.0m (2008: £12.8m) and the Trust subscribed £2.7m for 1.5m new shares under the rights issue. The market value of the 4.2m (2008: 3.7m) shares held by the Trust at 31 December 2009 was £10.8m (2008: £12.2m). Following confirmation of the performance criteria at the end of the performance period in the case of the performance share plan, and at the end of the vesting period in the case of the deferred bonus plan, the appropriate number of shares will be unconditionally transferred to participants. In 2009, 1.4m shares were transferred to participants in relation to the April 2006 awards under the performance share plan (2008: 1.1m shares for the April 2005 awards), and 0.4m shares were transferred to participants in relation to the March 2006 awards under the deferred bonus plan. The trustees have waived the rights to dividends on shares held by the Trust. Other reserves in the Group and the Company include £6.4m relating to unvested performance share plan awards (2008: £7.6m), £5.9m relating to unvested share options (2008: £5.8m), and £3.8m relating to unvested deferred bonus plan awards (2008: £3.0m).

## Notes to the accounts

**29 Acquisitions**

The Group has made the following four acquisitions during the year:

	Acquisition date	Subsidiary	Percentage acquired	Cash consideration	Contingent consideration	Fair values of net assets acquired	Goodwill arising on acquisition (ii)	Costs (iii)
29.1	23 February 2009	Dooley Construction Limited Partnership ("RT Dooley")	100%	£28m \$40m	–	£11m	£17m	£1m
29.2	27 October 2009	Parsons Brinckerhoff Inc (i)	100%	£382m \$626m	£(7)m \$(12)m	£203m	£172m	£15m
29.3	12 November 2009	SpawMaxwell Company LLC (i)	100%	£12m \$20m	£3m \$5m	£4m	£11m	–
29.4	23 December 2009	Strata Construction Ltd (i)	100%	£10m	–	£4m	£6m	–
				£432m	£(4)m	£222m	£206m	£16m

(i) As at 31 December 2009 the fair values of acquired assets, liabilities and goodwill for these businesses have been determined on a provisional basis as these businesses were acquired in close proximity to the year end, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

(ii) None of the goodwill recognised for Parsons Brinckerhoff is expected to be deductible for income tax purposes. Goodwill of £25m is expected to be deductible for income tax purposes in relation to other acquisitions.

(iii) Costs directly attributable to each acquisition have been expensed within exceptional items, refer Note 8.

**29.1** RT Dooley is a leading North Carolina, USA firm in the interiors construction market. The goodwill arising is attributable to the acquisition strengthening and expanding the Group's US interior construction capabilities.

**29.2** Parsons Brinckerhoff is a leading global professional services firm headquartered in New York, USA. Parsons Brinckerhoff offers professional services across the entire project lifecycle from management consultancy and planning to design and engineering; programme, project and construction management services; and operational, maintenance and support services. The goodwill arising is attributable to the acquisition establishing a global professional services business and strengthening the Group's position in the global infrastructure market, particularly providing future opportunities in the US, UK, Australia, Hong Kong, Singapore, the UAE and a number of other key markets.

**29.3** SpawMaxwell is the largest interior construction contractor in Texas, USA. The goodwill arising is attributable to the acquisition enhancing the position of Balfour Beatty Construction US as a single source of construction capabilities in the Texas building market.

**29.4** Strata Construction is a Doncaster, UK based company specialising in the construction of affordable housing. The goodwill arising is attributable to the company expanding the Group's capabilities in the affordable housing market, particularly in the Yorkshire region.

## 29 Acquisitions continued

The fair value of the net assets acquired, consideration paid and goodwill arising on these transactions were:

	Recognised amounts of identifiable assets acquired and liabilities assumed		
	Parsons Brinckerhoff £m	Other £m	Total £m
<b>Net assets acquired:</b>			
Intangible assets – customer contracts	25	1	26
Intangible assets – customer relationships	63	10	73
Intangible assets – brand names	32	5	37
Intangible assets – software	3	–	3
Property, plant and equipment	38	2	40
Investments in joint ventures and associates	3	2	5
Investments	23	–	23
Working capital	4	(11)	(7)
Provisions	(19)	(2)	(21)
Deferred tax	2	–	2
Current tax	2	–	2
Cash and cash equivalents	124	12	136
Borrowings	(14)	–	(14)
Retirement benefit obligations	(83)	–	(83)
Identifiable net assets	203	19	222
Goodwill	172	34	206
Total consideration	375	53	428
<b>Satisfied by:</b>			
Cash consideration	382	50	432
Contingent consideration	(7)	3	(4)
Total consideration transferred	375	53	428
Cash consideration	382	50	432
Cash and cash equivalent balances acquired	(124)	(12)	(136)
Net cash outflow on acquisitions completed in 2009	258	38	296
Deferred consideration paid during 2009 in respect of acquisitions completed in earlier years			4
Net cash outflow on acquisitions			300

### Parsons Brinckerhoff

The fair value of working capital includes trade and other receivables with a fair value of £381m (\$623m) and a gross contractual value of £404m (\$662m). The value of receivables against which there is a provision is £23m (\$39m).

The contingent consideration arrangements require the performance of specific contracts to exceed predefined thresholds in order to become payable and are dependent on the outcome of settling certain historical insurance claims. The potential undiscounted amount of all future payments and receipts that the Group could be required to make or receive under the contingent consideration arrangements is between £16m receivable and £11m payable. The fair value of the contingent consideration arrangements is £7m receivable. This was estimated by applying the provisions of the purchase agreement to the current management assessment of possible outcomes and discounting the expected contract costs and insurance claim proceeds to their present value.

Parsons Brinckerhoff earned revenue of £248m, including its share of revenue from joint ventures and associates of £4m, and incurred a loss from operations (excluding exceptional items and amortisation) of £1m in the period since acquisition.

### Other acquisitions

The fair value of working capital includes trade and other receivables with a fair value of £64m and a gross contractual value of £65m. The value of receivables against which there is a provision is £1m.

The contingent consideration arrangements relating to the acquisition of SpawMaxwell require the acquired business to perform above a predefined performance level. The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangements is £3m, which is equal to the amount recognised as the fair value of contingent consideration.

Since acquisition the other acquired businesses earned revenues of £117m and made profits from operations (excluding exceptional items and amortisation) of £2m.

## Notes to the accounts

### 29 Acquisitions continued

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for Leonard Wood Family Communities LLC, Schreck-Mieves GmbH, Branlow Ltd, Colledge Trundle & Hall Ltd, and Lackland Family Housing LLC have been finalised in the current year with no material changes to the fair values disclosed in the Directors' report and accounts 2008.

The following summary presents the Group as if the businesses acquired had been acquired on 1 January 2009. The amounts include the results of the acquired businesses, depreciation and amortisation of the acquired fixed assets and intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The results of acquired companies for the period before acquisition have not been adjusted to reflect Balfour Beatty accounting policies nor to reflect the fair value adjustments made on acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined companies.

	Total £m
Group revenue	<b>10,238</b>
Profit for the year	<b>201</b>

### 30 Share-based payments

**30.1** The Company operates four equity-settled share-based payment arrangements, namely the savings-related share option scheme, the executive share option scheme, the performance share plan and the deferred bonus plan. The Group recognised total expenses related to equity-settled share-based payment transactions since 7 November 2002 of £6.8m in 2009 (2008: £8.8m).

Following the rights issue described in Note 28.2, adjustments were made to the number of shares under option and the exercise prices in accordance with the HMRC approved standard formula. The same adjustment formula was used to adjust the awards under the performance share plan and the deferred bonus plan. Numbers and prices prior to the rights issue have been adjusted onto a comparable basis.

#### 30.2 Savings-related share options

The Company operates an HMRC approved savings-related share option scheme ("SAYE") under which employees are granted an option to purchase ordinary shares in the Company in either three or five years time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise. This scheme is open to all employees based in the UK and performance conditions are not applied to the exercise of SAYE options. Employees normally have a period of six months after completion of the savings contributions during which to exercise the SAYE options, failing which they lapse. Details of SAYE options granted during the year and outstanding at the end of the year are shown in Note 27.1. The information in relation to SAYE options was:

	SAYE options 2009 Number (adjusted)	Weighted average exercise price 2009 Pence (adjusted)	SAYE options 2008 Number (adjusted)	Weighted average exercise price 2008 Pence (adjusted)
Outstanding at 1 January	<b>8,850,122</b>	<b>288.7</b>	8,277,126	257.9
Granted during the year	<b>2,883,694</b>	<b>249.0</b>	2,870,356	315.2
Forfeited during the year	<b>(1,254,662)</b>	<b>292.8</b>	(797,623)	280.5
Exercised during the year	<b>(1,523,234)</b>	<b>224.2</b>	(1,464,588)	173.3
Expired during the year	<b>(54,418)</b>	<b>168.6</b>	(35,149)	182.8
Outstanding at 31 December	<b>8,901,502</b>	<b>287.0</b>	8,850,122	288.7
Exercisable at 31 December	<b>106,695</b>	<b>228.6</b>	43,475	115.8

The weighted average share price at the date of exercise for those SAYE options exercised during the year was 272.3p (2008 adjusted: 349.4p). Those SAYE options outstanding at 31 December 2009 had a weighted average remaining contractual life of 2.6 years (2008: 2.7 years).

The principal assumptions used by the consultants in the stochastic model for the SAYE options granted in 2009, including expected volatility determined from the historic weekly share price movements over the three year period immediately preceding the invitation date, were:

Invitation date	Exercise price Pence (adjusted)	Closing share price before invitation date Pence (adjusted)	Expected dividend yield %	Expected volatility of shares %	Expected term of options Years	Risk-free interest rate %	Calculated fair value of an option Pence (adjusted)
9 April 2009 – three years savings contract	<b>249.0</b>	<b>305.7</b>	<b>3.65</b>	<b>33.0</b>	<b>3.25</b>	<b>2.20</b>	<b>77.7</b>
9 April 2009 – five years savings contract	<b>249.0</b>	<b>305.7</b>	<b>3.65</b>	<b>33.0</b>	<b>5.25</b>	<b>2.73</b>	<b>85.6</b>



### 30 Share-based payments continued

#### 30.3 Executive share options

The Company has not granted any executive share options in 2009, but has continued to operate a scheme under which employees were last granted options in 2004 to purchase ordinary shares in the Company, which are exercisable between three and 10 years after the date of grant. Performance conditions have been met for all executive options granted since 7 November 2002, as earnings per share before goodwill amortisation and exceptional items ("eps") for the last year of the minimum three year performance period have grown from their respective fixed base eps by a total of at least 3% per annum plus the increase in RPI over the relevant period. Details of executive share options outstanding at the end of the year are shown in Note 27.1.

The information in relation to executive options granted since 7 November 2002 was:

	Executive options 2009 Number (adjusted)	Weighted average exercise price 2009 Pence (adjusted)	Executive options 2008 Number (adjusted)	Weighted average exercise price 2008 Pence (adjusted)
Outstanding at 1 January	1,400,501	198.9	1,658,587	199.8
Granted during the year	—	—	—	—
Forfeited during the year	(17,223)	227.3	(51,827)	218.9
Exercised during the year	(138,358)	195.5	(206,259)	200.7
Expired during the year	—	—	—	—
Outstanding at 31 December	1,244,920	198.9	1,400,501	198.9
Exercisable at 31 December	1,244,920	198.9	1,400,501	198.9

The weighted average share price at the date of exercise for those executive options exercised during the year was 286.1p (2008 adjusted: 370.4p). Those executive options outstanding at 31 December 2009 had a weighted average remaining contractual life of 3.9 years (2008: 4.9 years).

#### 30.4 Performance share plan awards

The Company operates a performance share plan under which executive Directors and key senior employees are granted conditional awards of ordinary shares in the Company, which are exercisable on the third anniversary of the date of award. These awards will only vest to the extent that performance targets are met over a three year performance period. On 15 April 2009 a maximum of 2,999,265 conditional shares were awarded which are normally exercisable in April 2012.

50% of the 2009 award is based on an eps growth target: the maximum award of shares is made only where the Company's eps increases by at least RPI +39% in the relevant performance period; 25% of this element of the award is made where the Company's eps increases by RPI +9% over the period; if growth in eps is between RPI +9% and RPI +39%, the number of shares will be awarded pro-rata to the growth in eps; and no shares from this element of the award can be awarded if growth in eps is less than RPI +9% over the period.

The other 50% of that 2009 award is based on total shareholder return (TSR) performance measured against a group of UK listed companies operating in comparable markets to the Company: the maximum award of shares is made only where the Company's TSR is in the upper quartile; 25% of this element of the award is made where the Company's TSR is at the median; if the Company's TSR is between the median and the upper quartile, the number of shares will be awarded pro-rata; and no shares can be awarded if the Company's TSR is below median.

The information in relation to performance share awards was:

	Conditional awards 2009 Number (adjusted)	Conditional awards 2008 Number (adjusted)
Outstanding at 1 January	5,997,490	5,318,285
Granted during the year	2,999,265	2,345,276
Forfeited during the year	(70,391)	(78,555)
Exercised during the year	(1,436,028)	(1,300,321)
Expired during the year	(627,202)	(287,195)
Outstanding at 31 December	6,863,134	5,997,490
Exercisable at 31 December	—	—

The weighted average share price at the date of exercise for those performance share awards exercised during the year was 283.4p (2008 adjusted: 390.2p). Those performance share awards outstanding at 31 December 2009 had a weighted average remaining contractual life of 1.5 years (2008: 1.7 years).

## Notes to the accounts

### 30 Share-based payments continued

The awards are satisfied by the transfer of shares for no consideration. For the 50% of the 2009 award which is subject to a performance test based on eps, the fair value of the award is the closing share price before the award date (309.2p). For the 50% of that 2009 award which is subject to a market condition based on TSR, the consultants have used a stochastic model, including expected volatility determined from the historic weekly share price movements over the three year period preceding the award date, with the following assumptions used:

Award date	Closing share price before award date Pence (adjusted)	Expected volatility of shares %	Expected term of awards Years	Risk-free interest rate %	Calculated fair value of an award Pence (adjusted)
15 April 2009	309.2	33.0	3.0	2.14	223.6

### 30.5 Deferred bonus plan awards

The Company operates a deferred bonus plan under which one-third of the annual bonus of executive Directors and key senior employees is deferred in the form of ordinary shares in the Company, which will normally be released after three years, providing the individual is still in the Group's employment at that time. On 31 March 2009 a maximum of 887,240 conditional shares were awarded which will normally be released on 31 March 2012. On 6 July 2009 a further 47,633 conditional shares were awarded in lieu of entitlements to the final 2008 dividend and on 4 December 2009 a further 34,727 conditional shares were awarded in lieu of entitlements to the interim 2009 dividend.

The information in relation to deferred bonus plan awards was:

	Conditional awards 2009 Number (adjusted)	Conditional awards 2008 Number (adjusted)
Outstanding at 1 January	1,488,052	847,076
Granted during the year	887,240	607,264
Awards in lieu of dividends	82,360	46,472
Forfeited during the year	(30,132)	(12,760)
Exercised during the year	(493,574)	—
Expired during the year	—	—
Outstanding at 31 December	1,933,946	1,488,052
Exercisable at 31 December	—	—

The weighted average share price at the date of exercise for those deferred bonus plan awards exercised during the year was 285.6p (2008: n/a). Those deferred bonus plan awards outstanding at 31 December 2009 had a weighted average remaining contractual life of 1.5 years (2008: 1.4 years).

As the awards are satisfied by the transfer of shares for no consideration, the fair values of the awards are the closing share price before award date, which was 281.95p, 261.48p and 263.5p for the awards made on 31 March 2009, 6 July 2009 and 4 December 2009 respectively.

### 31 Commitments

Capital expenditure authorised and contracted for which has not been provided for in the accounts amounted to £29m (2008: £34m) in the Group and £nil (2008: £nil) in the Company.

The Group has committed to provide its share of further equity funding and subordinated debt of joint ventures and associates in PPP projects amounting to £104m (2008: £70m), £30m (2008: £19m) in respect of PPP subsidiaries and £23m (2008: £27m) in respect of Balfour Beatty Communities' military housing concessions. The future cash flow profile of the Group's share of further equity funding and subordinated debt is shown in Note 36(g).

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the statement of financial performance is disclosed in Note 4.1.

Future operating lease expenditure commitments comprise:

	Land and buildings 2009 £m	Other 2009 £m	Land and buildings 2008 £m	Other 2008 £m
<b>Group</b>				
Due within one year	72	30	35	21
Due between one and five years	179	47	82	33
Due after more than five years	55	1	41	–
	<b>306</b>	<b>78</b>	158	54
<b>Company</b>				
Due within one year	3	–	3	–
Due between one and five years	13	–	13	–
Due after more than five years	1	–	4	–
	<b>17</b>	–	20	–

Future operating lease income commitments comprise:

	Land and buildings 2009 £m	Land and buildings 2008 £m
<b>Group</b>		
Due within one year	3	2
Due between one and five years	10	10
Due after more than five years	1	2
	<b>14</b>	14
<b>Company</b>		
Due within one year	3	2
Due between one and five years	10	9
Due after more than five years	–	2
	<b>13</b>	13

## Notes to the accounts

### 32 Contingent liabilities

The Company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts and given guarantees in respect of the Group's share of certain contractual obligations of joint ventures and associates and certain retirement benefit obligations of the Balfour Beatty Pension Fund and the Parsons Brinckerhoff pension scheme. Where the Company enters into such agreements, it considers them to be insurance arrangements, and accounts for them as such. Guarantees are treated as contingent liabilities until such time as it becomes probable that the Company will be required to make payment under the guarantee.

An associate is a member of a multi-employer defined benefit pension plan where there is insufficient information on which to base a reliable estimate of any potential defined benefit obligation and accordingly the associate is accounting for the plan as a defined contribution plan. Under certain circumstances it is possible that additional contributions may be made to fund the deficit attributable to the associate, however no reliable estimate can be made of whether and to what extent a liability may crystallise.

As stated in Note 26, provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

### 33 Related party transactions

#### Joint ventures and associates

The Group has contracted with, provided services to, and received management fees from, certain joint ventures and associates amounting to £939m (2008: £693m). These transactions occurred in the normal course of business at market rates and terms. In addition, the Group procured equipment and labour on behalf of certain joint ventures and associates which were recharged at cost with no mark-up. The amounts due to or from joint ventures and associates at 31 December are disclosed within trade and other receivables and trade and other payables in Notes 21 and 22 respectively.

#### Pension schemes

The Group recharged the Balfour Beatty Pension Fund with the costs of administration and advisers' fees borne by the Group amounting to £5.0m in 2009 (2008: £4.5m).

#### Key personnel

The remuneration of key personnel of Balfour Beatty plc was:

	2009 £m	2008 £m
Short-term benefits	<b>4.586</b>	7.137
Post-employment benefits	<b>0.235</b>	0.771
Share-based payments	<b>1.852</b>	3.031
	<b>6.673</b>	10.939

Key personnel comprise the executive directors and three Group managing directors (2008: seven) who are directly responsible for the Group's operating companies, engineering and safety. The remuneration included above is that paid in respect of the period of the year during which the individuals were Directors and Group managing directors. Further details of Directors' emoluments, post employment benefits and interests are set out in the Remuneration report on pages 82 to 90.

### 34 Post balance sheet events

On 29 January 2010 the Group acquired Multibuild Hotels and Leisure Limited and Multibuild Interiors Limited for a cash consideration of £1.9m. Multibuild Hotels and Leisure Limited and Multibuild Interiors Limited, based in Stockport UK, specialise in the construction and fit-out of hotel and leisure facilities. As the companies have been acquired recently, at the date of authorisation of these accounts it is impracticable to determine the fair value of the net assets and goodwill acquired.

## 35 Notes to the statements of cash flows

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>35.1 Cash generated from operations comprises:</b>				
Profit from operations	297	251	182	15
Exceptional reduction in pension past service liabilities	(100)	(60)	(4)	(2)
Share of results of joint ventures and associates	(83)	(72)	–	–
Dividends received	–	–	(189)	(28)
Depreciation of property, plant and equipment	69	65	1	–
Amortisation of other intangible assets	48	27	–	–
Pension deficit payments	(35)	(38)	(1)	(1)
Movements relating to share-based payments	7	9	4	5
Profit on disposal of property, plant and equipment	(4)	(4)	–	–
Impairment of inventory	2	–	–	–
Impairment of property, plant and equipment	2	–	–	–
Other non-cash items	1	5	–	–
Operating cash flows before movements in working capital	204	183	(7)	(11)
Decrease in working capital	90	114	21	2
Cash generated from/(used in) operations	294	297	14	(9)

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>35.2 Cash and cash equivalents comprise:</b>				
Cash and deposits	464	379	–	–
Term deposits	144	82	143	50
PPP cash balances	10	2	–	–
Bank overdrafts	(10)	(10)	(53)	(51)
	608	453	90	(1)

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
<b>35.3 Analysis of movement in net cash:</b>				
Opening net cash	297	313	(1)	(15)
Net increase in cash and cash equivalents	185	2	91	14
Acquisitions – borrowings at date of acquisition	(14)	(29)	–	–
Proceeds from new loans	(121)	(81)	–	–
Repayment of loans	4	18	–	–
Repayment of finance leases	3	2	–	–
Currency translation differences	(30)	72	–	–
Closing net cash	324	297	90	(1)

**35.4 Borrowings**

During the year to 31 December 2009 the significant movements in borrowings were an increase of £116m (2008: £81m increase) in non-recourse borrowings funding the development of financial assets in PPP subsidiaries, the inclusion of £14m (2008: £29m) of borrowings in acquired companies and repayment of £4m (2008: £18m) of loans.



## Notes to the accounts

## 36 Principal subsidiaries, joint ventures and associates

	Country of incorporation or registration	Country of incorporation or registration	Ownership interest %
<b>(a) Principal subsidiaries</b>			
<b>Professional, Construction and Support services</b>			
Balfour Beatty Civil Engineering Ltd			
Balfour Beatty Construction Group Inc	USA		
Balfour Beatty Construction Northern Ltd			
Balfour Beatty Construction Scottish & Southern Ltd	Scotland		
Balfour Beatty Engineering Services Limited	Scotland		
Balfour Beatty Ground Engineering Limited			
Balfour Beatty Group Ltd			
Balfour Beatty Infrastructure Inc	USA		
Balfour Beatty Management Ltd			
Balfour Beatty Rail GmbH	Germany		
Balfour Beatty Rail Inc	USA		
Balfour Beatty Rail Ltd			
Balfour Beatty Rail SpA	Italy		
Balfour Beatty Utility Solutions Ltd			
Balfour Beatty Workplace Ltd			
Birse Group plc*			
Heery International Inc	USA		
Mansell plc			
Parsons Brinckerhoff (Asia) Ltd	Hong Kong		
Parsons Brinckerhoff Inc	USA		
Parsons Brinckerhoff International Pte Ltd	Singapore		
Parsons Brinckerhoff Ltd			
PB Americas Inc	USA		
PB Australia Pty Ltd	Australia		
<b>Infrastructure investments</b>			
<b>PPP (refer Note 36 (d))</b>			
Balfour Beatty Capital Ltd			
Balfour Beatty Capital Group Inc	USA		
Balfour Beatty Communities LLC	USA		
Balfour Beatty Infrastructure Investments Ltd*			
<b>Other</b>			
Balfour Beatty LLC	USA		
Balfour Beatty Group Inc	USA		
Balfour Beatty Investment Holdings Ltd			
Delphian Insurance Company Ltd	Isle of Man		
<b>(b) Principal joint ventures and associates</b>			
<b>Professional, Construction and Support services</b>			
BK Gulf LLC		Dubai	49.0
Dutco Balfour Beatty LLC		Dubai	49.0
Gammon China Ltd		Hong Kong	50.0
Monteray Ltd			24.5
Romec Ltd			49.0
Refer to Note 36 (d), (e) and (f) for details of the Group's Infrastructure investments companies.			
<b>(c) Principal jointly controlled operations</b>			
The Group carries out a number of its larger construction contracts in joint arrangement with other contractors so as to share resources and risk.			
The principal joint construction projects in progress are shown below:			
East London Line			50.0
South-East England Roads			60.0
South-West England Roads			73.0
High speed line Bologna/Firenze		Italy	26.0
High speed line Milano/Bologna		Italy	26.0
M25 DBFO			50.0
M25 Maintenance			52.5
M74 Motorway		Scotland	25.0
Scotland Transerv		Scotland	70.0
Gotthard Base Tunnel		Switzerland	25.0
Berlin Federal Prison		USA	80.0
Dallas Convention Center Hotel		USA	80.0
I-5/I-15 Highway Projects		USA	30.0
Mount Rogers		USA	90.0
New Campus East at Fort Belvoir		USA	50.0
Walter Reed Army Medical Center		USA	40.0
Notes:			
(i) Subsidiaries, joint ventures and associates whose results did not, in the opinion of the Directors, materially affect the results or net assets of the Group are not shown.			
(ii) * Indicates held directly by Balfour Beatty plc.			
(iii) Unless otherwise stated, 100% of the equity capital is owned and companies are registered in England and Wales. The principal operations of each company are conducted in its country of incorporation.			

### 36 Principal subsidiaries, joint ventures and associates continued

#### (d) PPP concessions

##### Roads

**Summary:** Balfour Beatty is a promoter, developer and investor in nine road and street lighting projects under Balfour Beatty's Connect brand: to construct new roads; to upgrade and maintain existing roads; and to replace and maintain street lighting.

**Project descriptions:** The road projects comprise the design, construction, operation, maintenance and associated financing of the following roads: the M1-A1 link road; A30 Honiton to Exeter and A35 Tolpuddle to Puddletown bypass; A50 Stoke-Derby; M77 Fenwick to Mallettsheugh and the Glasgow Southern Orbital; the M25 Junction 16 to Junction 23, Junction 27 to Junction 30 and A1(M) Hatfield Tunnel and maintenance of the entire M25; and the Carlisle Northern Development Route (CNDR). The road concessions typically run for 30 years and reached financial close at various dates between March 1996 and July 2009. The street lighting projects are for the replacement, maintenance and associated financing over a 25-year period of the street lighting and highway signs in Sunderland, South Tyneside and Derby. All construction is new build rather than refurbishment except for the work undertaken on the M25 and A1(M) Hatfield Tunnel.

**Contractual arrangements:** The principal contract in the roads concessions is the project agreement with the governmental highway authority setting out the obligations for the construction, operation and maintenance of the roads including lifecycle replacement by Connect for the life of the concession to specified standards. In the case of M1-A1, A30/A35 and A50 the inflation indexed payment is related to traffic volumes. In the case of M77/GSO and CNDR, the inflation indexed payment is partly based on availability and partly on traffic volumes, and is subject to any performance related deductions. In the case of M25, the inflation indexed payment is wholly based on availability and is subject to any performance related deductions. Construction of the roads was subcontracted to construction joint ventures in which Balfour Beatty had a 50% interest or, in the case of the M77/GSO and CNDR, 100% to Balfour Beatty subsidiaries. On the street lighting projects, payment is by a periodic inflation indexed availability payment subject to performance deductions and the replacement and maintenance obligations have been subcontracted to a Balfour Beatty subsidiary. There are no provisions to reprice the contracts and all assets transfer to the client at the end of the concessions.

Concession company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2009	Committed post 31 December 2009
Connect M1-A1 Ltd	M1-A1 30km road	£290m	50%	March 1996	30	1999	£14m	–
Connect A50 Ltd (ii)	A50 57km road	£42m	85%	May 1996	30	1998	£6m	–
Connect A30/A35 Ltd (ii)	A30/A35 102km road	£127m	85%	July 1996	30	2000	£21m	–
Connect M77/GSO plc (ii)	M77/GSO 25km road	£167m	85%	May 2003	32	2005	£15m	–
Connect Roads Sunderland Ltd	Street lighting apparatus in Sunderland	£27m	100%	August 2003	25	2008	£3m	–
Connect Roads South Tyneside Ltd	Street lighting apparatus in South Tyneside	£28m	100%	December 2005	25	2010	–	£2m
Connect Roads Derby Ltd	Street lighting apparatus in Derby	£36m	100%	April 2007	25	2012	–	£2m
Connect Plus (M25) Ltd	M25 J16 – J23, J27 – J30 and A1(M) Hatfield Tunnel	£1,309m	40%	May 2009	30	2012	£25m	£55m
Connect CNDR Ltd	Carlisle Northern Development Route	£176m	100%	July 2009	30	2012	–	£11m
							<b>£84m</b>	<b>£70m</b>

#### Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Connect M77/GSO plc which conducts its principal operations in Scotland.
- (ii) Due to the shareholder agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

## Notes to the accounts

**36 Principal subsidiaries, joint ventures and associates continued****(d) PPP concessions continued**

## Hospitals

**Summary:** Balfour Beatty is a promoter, developer and investor in nine hospital projects, eight of which are under Balfour Beatty's Consort Healthcare brand, comprising the building of hospital accommodation and the provision of certain non-medical facilities management services over the concession period.

**Project descriptions:** The projects comprise: University Hospital of North Durham; Edinburgh Royal Infirmary; Royal Blackburn Hospital; University College London Hospital; University Hospital Birmingham; Pinderfields and Pontefract Hospitals in mid-Yorkshire; Hope Hospital Salford; Tameside General Hospital; and Victoria Hospital Kirkcaldy in Fife. Construction is new build rather than refurbishment.

**Contractual arrangements:** The principal contract is the project agreement between the concession company and the NHS Trust. An inflation indexed payment is primarily based upon availability of the hospital subject to any performance related deductions. Construction of the hospitals has been subcontracted to construction joint ventures in which Balfour Beatty subsidiaries participated 100% (University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkaldy), 85% (Edinburgh Royal Infirmary), and 50% (University College London Hospital). In the case of Edinburgh Royal Infirmary, University Hospital of North Durham, Royal Blackburn Hospital, University Hospital Birmingham, Pinderfields and Pontefract Hospitals, Hope Hospital Salford, Tameside General Hospital and Victoria Hospital Kirkaldy, facilities management has been subcontracted to a Balfour Beatty subsidiary. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession, with the exception of Edinburgh Royal Infirmary, where the client has the option to terminate the arrangement for the provision of the hospital and services in 2028.

Concession company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2009	Committed post 31 December 2009
Consort Healthcare (Durham) Ltd	Teaching hospital	£90m	50%	March 1998	30	2001	£7m	–
Consort Healthcare (Edinburgh Royal Infirmary) Ltd (ii)	Teaching hospital and medical school	£220m	73.9%	August 1998	30	2003	£40m	–
Health Management (UCLH) Ltd	University College London teaching hospital	£282m	33.3%	July 2000	40	2008	£9m	–
Consort Healthcare (Blackburn) Ltd	District general hospital	£116m	50%	July 2003	38	2006	£6m	–
Consort Healthcare (Birmingham) Ltd	Teaching hospital and mental health hospital	£553m	40%	June 2006	40	2011	£19m	£4m
Consort Healthcare (Mid Yorkshire) Ltd	Pinderfields and Pontefract general hospitals	£311m	50%	June 2007	35	2010	–	£15m
Consort Healthcare (Salford) Ltd	Teaching hospital and medical school	£136m	50%	September 2007	35	2012	–	£10m
Consort Healthcare (Tameside) Ltd	General hospital	£77m	50%	September 2007	34	2011	£6m	–
Consort Healthcare (Fife) Ltd	General hospital	£170m	50%	April 2009	30	2011	£2m	£7m
							<b>£89m</b>	<b>£36m</b>

## Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Consort Healthcare (Edinburgh Royal Infirmary) Ltd and Consort Healthcare (Fife) Ltd which are registered in Scotland and conduct their principal operations in Scotland.
- (ii) Due to the shareholder agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

### 36 Principal subsidiaries, joint ventures and associates continued

#### (d) PPP concessions continued

##### Schools

**Summary:** Balfour Beatty is a promoter, developer and investor in nine schools projects under Balfour Beatty's Transform Schools brand, and one each under the Aura and 4 Futures brands to design, build or refurbish schools and to provide certain non-educational services over the concession period.

**Project descriptions:** The projects comprise: 98 schools in the city of Stoke-on-Trent; 15 schools in Rotherham; 21 schools in North Lanarkshire; six new schools, two post-16 learning centres and two leisure centres in Bassetlaw, Nottinghamshire; 12 schools in Birmingham; 16 schools in the first two phases in Newcastle; seven learning centres in Knowsley; a first phase of three schools in Islington; and a first phase of two schools in Southwark. Construction in North Lanarkshire, Bassetlaw, Newcastle, Knowsley and Southwark is all new build. On Stoke, construction comprises £16m of new build and £63m of refurbishment; on Rotherham, £78m of new build and £21m of refurbishment; on Birmingham, £69m of new build and £5m of refurbishment; and on Islington's first phase, £65m of new build and £10m of refurbishment.

**Contractual arrangements:** The principal contract is the project agreement between the concession company and the local authority that provides for an inflation indexed availability based payment subject to any performance related deductions. For projects under the Transform Schools and 4 Futures brands construction is subcontracted to construction joint ventures of Balfour Beatty subsidiaries and the facilities management services are subcontracted to a Balfour Beatty subsidiary. Construction and facilities management services on the project under the Aura brand are carried out by subsidiaries of other shareholders. The payments for the facilities management services are repriced every five years. All assets transfer to the client at the end of the concession.

Concession company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2009	Committed post 31 December 2009
Transform Schools (Stoke) Ltd	Grouped schools project in Stoke-on-Trent	£84m	50%	October 2000	25	2005	£5m	–
Transform Schools (Rotherham) Ltd	Grouped schools project in Rotherham	£113m	50%	June 2003	31	2006	£5m	–
Transform Schools (North Lanarkshire) Ltd	Grouped schools project in North Lanarkshire	£140m	50%	June 2005	32	2008	£9m	–
Transform Schools (Bassetlaw) Ltd	Grouped schools project in Bassetlaw, Notts	£127m	50%	July 2005	27	2007	£7m	–
Transform Schools (Birmingham) Ltd	Grouped schools project in Birmingham	£89m	50%	March 2006	33	2009	£4m	–
Aura Newcastle Ltd	BSF project in Newcastle-upon-Tyne	£47m	20%	July 2007	25	2012	£4m	–
Transform Schools (Knowsley) Ltd	BSF project in Knowsley	£163m	100%	December 2007	27	2010	–	£15m
Transform Islington Ltd (ii)	BSF project in Islington	£47m	80%	July 2008	26	2010	–	£4m
4 Futures Ltd (ii)	BSF project in Southwark	£23m	80%	May 2009	26	2011	–	£2m
							<b>£34m</b>	<b>£21m</b>

#### Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Transform Schools (North Lanarkshire) Ltd which conducts its principal operations in Scotland.
- (ii) Due to the shareholder agreement between Balfour Beatty and the other shareholder requiring unanimity of agreement in respect of significant matters related to the financial and operating policies of this company, the Directors are of the opinion that, as at the reporting date, the Group did not control this company and it has been accounted for as a joint venture.

## Notes to the accounts

**36 Principal subsidiaries, joint ventures and associates continued****(d) PPP concessions continued**

## Other concessions

**Summary:** Balfour Beatty is a promoter, developer and investor in a number of other concessions.

**Project descriptions:** The Powerlink project comprises two companies: EDF Energy Powerlink Ltd (EDFEPL), which operates the London Underground high voltage power system under a 30-year contract and is responsible for procuring various new power assets, and Power Asset Development Company Ltd (PADCO), which constructed the new build power assets and is leasing them to EDFEPL. Aberdeen Environmental Services Ltd (AES) has a contract to design, build and finance wastewater treatment facilities in North-East Scotland and operate them for the remainder of a 30-year period. The construction was principally new build. Pevensey Coastal Defence Ltd (PCDL) has a 25-year contract with the Environment Agency which requires PCDL to maintain sea defences consisting of a shingle bank that extends 9 km between Eastbourne and Bexhill-on-Sea in East Sussex. Gammon Capital (West) Pte Ltd has a contract to design, build and finance the New Institute of Technical Education ("ITE") College West in Singapore and provide long-term facilities management services for the remainder of the 27-year project.

**Contractual arrangements:** For the Powerlink project the principal project agreement is the power services contract between EDFEPL and London Underground Ltd that provides for an inflation indexed availability payment subject to any performance deductions. EDFEPL operates and maintains the power network using its own staff and is leasing the new power assets from PADCO, which subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary had a 40% interest. There are no provisions to reprice contracts and all assets transfer to the client at the end of the concession. For AES the principal agreement is the project agreement with Scottish Water under which AES receives inflation indexed payments on the basis of flows and loads of influent to the treatment works less any performance related deductions. AES subcontracted construction to a construction joint venture in which a Balfour Beatty subsidiary had a 50% interest and subcontracted operations and maintenance to a subsidiary of one of the other shareholders. PCDL's principal contract is the flood defence services agreement with the Environment Agency that provides for an inflation indexed payment subject to any performance related deductions. For the Singapore project, the principal agreement is the project agreement with the ITE of Singapore that provides for an inflation indexed availability based payment subject to any performance deductions. Construction is subcontracted to Gammon Pte Ltd, a wholly-owned subsidiary of Gammon China Ltd in which the Group has a 50% interest. The facilities management services under the ITE agreement are provided by a third party.

Concession company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
							Invested to 31 December 2009	Committed post 31 December 2009
EDF Energy Powerlink Ltd (ii) /Power Asset Development Company Ltd	London Underground power system	£184m	10%/25%	August 1998	30	2006	£4m	–
Aberdeen Environmental Services Ltd	Wastewater treatment in North-East Scotland	£92m	50%	May 2000	30	2002	£5m	–
Pevensey Coastal Defence Ltd	Flood defences	£3m	25%	July 2000	25	n/a	£1m	–
Gammon Capital (West) Pte Ltd	Technical education college	£100m	50%	August 2008	27	2010	–	£7m
							£10m	£7m

Notes:

- (i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales, except Gammon Capital (West) Pte Ltd which is registered in Singapore and conducts its principal operations in Singapore.
- (ii) The Group exercises significant influence through its participation in the management of EDF Energy Powerlink and therefore accounts for its interest as an associate.



### 36 Principal subsidiaries, joint ventures and associates continued

#### (e) Military housing

**Summary:** Balfour Beatty through its subsidiary Balfour Beatty Communities LLC is a manager, developer, and investor in a number of US military privatisation projects associated with a total of 44 military bases that provide speciality housing to US military personnel and their families.

**Project descriptions:** The projects comprise 11 military family housing privatisation projects with the United States Department of the Army (Army), covering 16 Army bases; four projects with the United States Department of the Air Force (Air Force), covering nine Air Force bases and two projects with the United States Department of the Navy (Navy), covering 19 Navy bases. In addition, there is one unaccompanied personnel housing (UPH) project at Fort Stewart, located in Hinesville, Georgia. These projects in operation cover 44 domestic bases located in 20 states and Washington, DC and Balfour Beatty Communities expects them to contain over 33,000 end-state housing units once full development, construction and renovation have been completed. The first phase of the project, known as the initial development period, covers the period of initial construction or renovation of military housing on a base, typically lasting three to eight years. For each project, Balfour Beatty Communities creates a special purpose entity to serve as the owner of the project, which is typically either a limited liability company or general partnership. With respect to Army and Navy projects, the government becomes a member or partner of the project entity (Project LLC); and, whereas the Air Force is not a named partner or member in Balfour Beatty Communities' Project LLCs, it contributes a commitment to provide a government direct loan to the Project LLC and has similar rights to share in distributions and cash flows of the Project LLC.

**Contractual arrangements:** On each project, the Project LLC enters into a ground lease with the government, which provides the Project LLC with a leasehold interest in the land and title to the improvements on the land for a period of 50 years. Each of these military housing privatisation projects includes agreements covering the management and development of existing housing units, as well as the development, construction, renovation and management of new units during the term of the project, which, in the case of the Army, potentially could extend for up to an additional 25 years. The 50 year duration of each project calls for continuous renovation, rehabilitation, demolition and reconstruction of housing units through various predetermined project phases. At the end of the ground lease term the Project LLC's leasehold interest terminates and all project improvements on the land generally transfer to the US Government.

**Preferred returns:** The projects will typically receive, to the extent that adequate funds are available, an annual, minimum preferred rate of return. On most existing projects, this annual minimum preferred rate of return ranges from 9% to 12% of Balfour Beatty Communities' initial equity contribution to the project. During the initial development period, the project is precluded from distributing funds to pay the minimum preferred rate of return. The unpaid amounts generally will accrue and accumulate, and can be used to fund renovation and construction costs, if necessary. If the accumulated funds are not needed to fund renovation and construction costs, at the end of the initial development period they are distributed to pay accrued preferred returns to Balfour Beatty Communities and the US Government in accordance with the terms of the project agreements.

**Split of remaining operating cash flows:** Subsequent to the initial development period, any operating cash flow remaining after the annual minimum preferred rate of return is paid is shared between Balfour Beatty Communities, the US Government and the reinvestment account held by the project for the benefit of the US Government. On most of the existing projects, the total amount that each party is entitled to receive (inclusive of the preferred return) is generally capped at an annual modified rate of return, or cash-on-cash return, on its initial equity contribution to the project. Historically, these annual caps have ranged between approximately 11% to 17% (depending on the particular project). However, in some of the more recent projects, there are either no annual caps or lower projected annual rates of return. The total capital return generally will include the annual minimum preferred return discussed above. The reinvestment account is an account established for the benefit of the military, but funds may be withdrawn for construction, development and renovation costs during the remaining life of a privatisation project upon approval by the applicable military branch.

**Return of equity:** Generally, at the end of a project term, any monies remaining in the reinvestment account are distributed to Balfour Beatty Communities and the Army, Navy or Air Force, as applicable, in a predetermined order of priority. Typically these distributions will have the effect of providing the parties with sufficient funds to provide a minimum annual return over the life of the project and a complete return of the initial capital contribution. After payment of the minimum annual return and the return of a party's initial contribution, all remaining funds will typically be distributed to the Army, Navy or Air Force, as applicable.

## Notes to the accounts

## 36 Principal subsidiaries, joint ventures and associates continued

## (e) Military housing continued

Military privatisation project (i)	Project	Total project funding	Financial close	Duration years	Construction completion	Equity and subordinated debt	
						Invested to 31 December 2009	Committed post 31 December 2009
Fort Carson	Army base located in Colorado Springs, CO	£145m	November 03	49	2004	£3m	–
Fort Stewart/Hunter Airfield	Two army bases located in Hinesville, GA and Savannah, GA	£221m	November 03	50	2011	–	£6m
Fort Hamilton	Army base located in Brooklyn, NY	£34m	June 04	50	2009	£1m	–
Walter Reed Army Medical Center/ Fort Detrick	Two army bases located in Washington, DC and Frederick, MD	£55m	July 04	50	2008	£4m	–
Navy Northeast Region	Eight navy bases located in Brunswick, ME; Kittery, ME; Newport RI; Groton, CT; Saratoga Springs, NY; Long Island, NY; Colts Neck, NJ; Lakehurst, NJ	£307m	November 04	50	2010	£6m	–
Fort Eustis/Fort Story	Two army bases located in Newport News, VA and Virginia Beach, VA	£107m	March 05	50	2011	–	£2m
Fort Bliss/White Sands Missile Range	Two army bases located in El Paso, TX and Las Cruces, NM	£264m	July 05	50	2011	–	£4m
Fort Gordon	Army base located in Augusta, GA	£70m	May 06	50	2012	–	£3m
Carlisle/Picatinny	Two army bases located in Carlisle, PA and Dover, NJ	£51m	July 06	50	2011	–	£2m
Fort Carson expansion	Army base located in Colorado Springs, CO	£80m	November 06	46	2010	–	–
AETC Group 1	Four Air Force bases located in Altus, OK; Wichita Falls, TX; Panama City, FL; Phoenix, AZ	£184m	February 07	50	2012	£5m	–
Navy Southeast Region	Eleven Navy bases located in Charleston, SC; Kingsbay, GA; Jacksonville, FL; Mayport, FL; Panama City, FL; Whiting Field, FL; Pensacola, FL; Key West, FL; Gulfport, MS; Meridan, MS; Fort Worth, TX	£424m	November 07	50	2013	£4m	–
Vandenberg	Air Force base in Lompoc, CA	£102m	November 07	50	2012	£4m	–
Fort Stewart UPH	Army base located in Hinesville, GA	£20m	January 08	50	2010	£1m	–
Fort Leonard Wood	Army base located in Pulaski, MO	£124m	Acquired June 2008	47	2014	–	£2m
AMC West	Three Air Force bases located in Spokane, WA; Fairfield, CA; Oklahoma City, OK	£253m	July 08	50	2015	£9m	–
West Point	Army base located in Orange County, NY	£129m	August 08	50	2016	–	£2m
Fort Jackson	Army base located in Columbia, SC	£104m	October 08	50	2013	–	£2m
Lackland	Air Force base located in San Antonio, TX	£87m	Acquired December 2008	50	2013	–	–
Fort Bliss Expansion	Army base located in El Paso, TX	£30m	December 09	46	2011	–	–
						<b>£37m</b>	<b>£23m</b>

Notes:

(i) Registered in the USA and the principal operations of each project are conducted in the USA.

(ii) The share of results of the military housing joint ventures of Balfour Beatty Communities is limited to a pre-agreed preferred return on funds invested.

	Equity and subordinated debt	
	Invested to 31 December 2009	Committed post 31 December 2009
PPP concessions listed above	£254m	£157m
Preferred bidder	–	£3m
Investment in Balfour Beatty Communities	£110m	–
	<b>£364m</b>	<b>£160m</b>

### 36 Principal subsidiaries, joint ventures and associates continued

#### (f) Non-PPP infrastructure investments

**Summary:** Balfour Beatty is an investor in and a promoter and developer of non-PPP infrastructure investments.

**Project descriptions:** Balfour Beatty is a 50% shareholder in Thames Power Ltd, which owns 51% of the equity in Barking Power Ltd, the company which built, equipped, owns and operates Barking Power Station, a combined cycle 1,000MW capacity gas-fired facility in East London. In January 2007 Regional & City Airports (Exeter) Holdings Ltd purchased Exeter and Devon Airport Ltd, which owns and operates Exeter International Airport. In May 2008 Regional & City Airports (Blackpool) Holdings Ltd purchased Blackpool Airport Ltd, which owns and operates Blackpool International Airport.

Company (i)	Project	Total debt and equity funding	Shareholding	Financial close	Equity and subordinated debt	
					Invested to 31 December 2009	Committed post 31 December 2009
Barking Power Ltd (ii)	Gas fired power station in East London	£661m	25.5%	March 1992	<b>£24m</b>	—
Exeter and Devon Airport Ltd	Exeter International Airport	£60m	60%	January 2007	<b>£18m</b>	—
Blackpool Airport Ltd (ii)	Blackpool International Airport	£14m	95%	May 2008	<b>£14m</b>	—
					<b>£56m</b>	—

Notes:

(i) Registered in England and Wales and the principal operations of each company are conducted in England and Wales.

(ii) Shareholdings quoted are economic interests.

#### (g) Total committed equity and debt funding

The future cash flow profile of committed equity and debt funding for the concession companies listed above is:

Concessions	2010 £m	2011 £m	2012 £m	2013 onwards £m	Total £m
Roads	<b>20</b>	<b>26</b>	<b>24</b>	—	<b>70</b>
Hospitals	<b>32</b>	<b>4</b>	—	—	<b>36</b>
Schools	<b>19</b>	<b>2</b>	—	—	<b>21</b>
Other	—	<b>7</b>	—	—	<b>7</b>
Military housing	<b>7</b>	<b>10</b>	<b>2</b>	<b>4</b>	<b>23</b>
<b>Total</b>	<b>78</b>	<b>49</b>	<b>26</b>	<b>4</b>	<b>157</b>

# Group five-year summary

IFRS	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
<b>Income</b>					
Revenue (including share of joint ventures and associates)	<b>10,339</b>	9,486	7,488	5,506	4,590
Share of revenue of joint ventures and associates	<b>(1,385)</b>	(1,225)	(1,022)	(1,019)	(753)
Group revenue from continuing operations	<b>8,954</b>	8,261	6,466	4,487	3,837
Profit from continuing operations before exceptional items and amortisation of intangible assets	<b>282</b>	230	178	115	94
Net investment income/(finance costs) before exceptional items	<b>(15)</b>	19	23	21	23
Profit before taxation, exceptional items and amortisation of intangible assets	<b>267</b>	249	201	136	117
Exceptional items	<b>48</b>	48	(35)	(26)	7
Amortisation of intangible assets	<b>(48)</b>	(27)	(9)	(1)	–
Profit from continuing operations before taxation	<b>267</b>	270	157	109	124
Taxation on profit from continuing operations	<b>(54)</b>	(74)	12	(34)	(35)
(Loss)/profit from discontinued operations after taxation	–	–	(18)	16	17
Profit for the year attributable to equity shareholders	<b>213</b>	196	151	91	106

## Capital employed

Equity shareholders' funds	<b>1,004</b>	861	483	387	292
Liability component of preference shares	<b>88</b>	87	87	90	98
Net cash	<b>(324)</b>	(297)	(313)	(284)	(301)
	<b>768</b>	651	257	193	89

	2009 Pence	2008 Pence	2007 Pence	2006 Pence	2005 Pence
<b>Statistics</b>					
Adjusted earnings per ordinary share*	<b>34.7</b>	34.7	30.5	23.8	21.0
Basic earnings per ordinary share	<b>37.4</b>	37.4	30.6	18.4	21.7
Diluted earnings per ordinary share	<b>37.3</b>	37.2	30.3	18.3	21.5
Proposed dividends per ordinary share	<b>12.0</b>	11.1	10.0	7.9	7.1
Profit from continuing operations before net investment income/(finance costs), exceptional items and amortisation as a percentage of revenue (including share of joint ventures and associates)	<b>2.7%</b>	2.4%	2.4%	2.1%	2.0%

### Notes:

The comparative figures for earnings per ordinary share and dividends per ordinary share have been restated for the bonus element of the October 2009 rights issue. The adjustment factor has been calculated by dividing the share price immediately before the shares were quoted ex-rights (316.0p) with the theoretical ex-rights price (275.2p), giving an adjustment factor of 1.14826.

The comparative figures for the years 2005 to 2007 have been re-presented from previously published accounts for the re-classification of the net amount of the expected return on pension assets and pension liability interest costs out of net operating expenses to investment income as disclosed in the Directors' report and accounts 2008.

\* Adjusted earnings per ordinary share before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations, have been disclosed to give a clearer understanding of the Group's underlying trading performance.



Designed and produced by **Radley Yeldar**. [www.ry.com](http://www.ry.com)  
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MCGHealth cancer centre – Dave Dawson Photography

## Shareholder information

### Financial calendar

	2010
21 April	Ex-dividend date for final 2009 ordinary dividend
23 April	Final 2009 ordinary dividend record date
12 May	Annual General Meeting
26 May	Ex-dividend date for July 2010 preference dividend
28 May	July 2010 preference dividend record date
5 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
5 July*	Final 2009 ordinary dividend payable
11 August*	Announcement of 2010 half-year results
3 December*	Interim 2010 ordinary dividend payable

\*Provisional dates

### Registrars

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, Telephone: 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday – Friday 8.30 am – 5.30 pm, UK time). Alternatively you can email at: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

They can help you to:

- check your shareholding;
- register a change of address or name;
- obtain a replacement dividend cheque or tax voucher;
- record the death of a shareholder;
- amalgamate multiple accounts;
- resolve any other question about your shareholding.

### Dividends and dividend reinvestment plan

If you wish dividends to be paid directly into your bank or building society account, through the Bankers Automated Clearing System (BACS), you should contact the Registrars for a dividend mandate form.

Balfour Beatty has a dividend reinvestment plan (DRIP) which allows ordinary shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, can be accessed at [www.balfourbeatty-shares.com](http://www.balfourbeatty-shares.com)

### International payment service

Shareholders outside the UK may now elect to receive dividends paid direct into their overseas bank account, or by currency draft, instead of by way of a cheque drawn in sterling. For further information, please contact the Company's Registrars on +44 20 8639 3405 (from outside the UK) or 0871 664 0385 from the UK (calls cost 10p per minute plus network extras). Lines are open between 9.00 am and 5.30 pm, UK time. Alternatively, please log on to [www.capitashareportal.com](http://www.capitashareportal.com) and click on the link for International Payment Service.

### Shareholder information on the internet and electronic communications

The Balfour Beatty website at [www.balfourbeatty.com](http://www.balfourbeatty.com) offers shareholders and prospective investors a range of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility.

It should be regarded as your first point of reference for information on any of these matters.

In conjunction with Capita Registrars, you can create a Share Portal account, through which you will be able to access the full range of online shareholder services, including the ability to:

- view your holdings and indicative share price and valuation;
- view movements on your holdings and your dividend payment history;
- register a dividend mandate to have your dividends paid directly into your bank account;
- change your registered address;
- sign-up to receive e-communications or access the online proxy voting facility;
- download and print shareholder forms.

The Share Portal is easy to use. Please visit [www.balfourbeatty-shares.com](http://www.balfourbeatty-shares.com). Alternatively, you can email: [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk)

### Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £13m has been given to more than 1,600 charities. The relevant share transfer form may be obtained from the Registrars. For more information on ShareGift, visit [www.ShareGift.org](http://www.ShareGift.org)

### Share dealing services

Capita Share Dealing Services (a trading name of Capita IRG Trustees Limited) provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, shareholders should contact Capita, Telephone: 0871 664 0364 from the UK (calls cost 10p per minute plus network extras) and +44 203 367 2686 from outside the UK – lines are open Monday to Friday 8.00 am to 4.30 pm, UK time. Alternatively, log on to [www.capitadeal.com](http://www.capitadeal.com)

For UK shareholders, an execution-only share-dealing service for the purchase and sale of Balfour Beatty shares is also available from NatWest Stockbrokers. For details, please contact: NatWest Stockbrokers Limited, Premier Place, 2½ Devonshire Square, London EC2M 4BA, Telephone: 0800 208 4433, TYPETALK 18001 0800 208 4433, Email: [contactces@rbs.co.uk](mailto:contactces@rbs.co.uk), The service is available Monday to Friday, except UK Bank Holidays, 8.00am to 4.30pm. NatWest Stockbrokers Limited is a joint venture between The Royal Bank of Scotland Group plc and Toronto-Dominion Bank.

Capita IRG Trustees Limited and NatWest Stockbrokers Limited are each authorised and regulated by the Financial Services Authority.

### Rights issue

On 17 September 2009, the Company announced a fully underwritten 3 for 7 rights issue at a subscription price of 180p per new ordinary share, representing a discount of approximately 46.8% to the closing middle market price of 344p per ordinary share on 16 September 2009, after adjustment for the 2009 interim dividend, to substantially finance the acquisition of Parsons Brinckerhoff Inc. The rights issue and acquisition were approved by the holders of the Company's ordinary shares at a general meeting on 7 October 2009 and the rights issue closed on 22 October 2009. The Company's ordinary shares were quoted ex-rights by the London Stock Exchange on 8 October 2009 and their closing middle market price that day was 279.6p per share. The closing middle market price of an ordinary share immediately before the ex-rights date was 316p per share. Dealings in nil paid new ordinary shares commenced on 8 October 2009 and the closing middle market price of the nil paid new ordinary shares that day was 98.75p per share. The theoretical ex-rights price was 275.2p per ordinary share.

The Company received valid acceptances in respect of 199,469,067 ordinary shares, representing approximately 97.06% of the total number of new ordinary shares offered to shareholders pursuant to the rights issue. In accordance with the arrangements set out in the rights issue prospectus, JPMorgan Cazenove Limited and RBS Hoare Govett Limited procured acquirers for the remaining 6,033,170 ordinary shares for which valid acceptances were not received, at a price of 287p per new ordinary share. 205,502,237 new ordinary shares were therefore issued, raising £352m after issue costs and expenses of £18m.

### Share price

The Balfour Beatty share price can be found at the Balfour Beatty website at [www.balfourbeatty.com](http://www.balfourbeatty.com) and in the appropriate sections of national newspapers under the classification "Construction and Building Materials". It is also available on a number of personal finance websites on the Internet and from television text services.

The London Stock Exchange Daily Official List (SEDOL) codes are:

Ordinary shares: 0096162.

Preference shares: 0097820.

The London Stock Exchange "ticker" codes are:

Ordinary shares: BBY.

Preference shares: BBYB.

### Capital gains tax

For capital gains tax purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 267.6p per share. This has been adjusted for the 1 for 5 rights issue in June 1992, the 2 for 11 rights issue in September 1996 and the 3 for 7 rights issue in October 2009, and assumes that all rights have been taken up.

### Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the Company's Registered Office address or by email to [info@balfourbeatty.com](mailto:info@balfourbeatty.com)

Balfour Beatty plc

Registered Office: 130 Wilton Road, London SW1V 1LQ

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